STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. RPU-2013-0004

ORDER APPROVING SETTLEMENT, WITH MODIFICATIONS, AND REQUIRING ADDITIONAL INFORMATION

(Issued March 17, 2014)

SYNOPSIS[1]

On March 17, 2014, the Utilities Board (Board) issued its written decision in MidAmerican Energy Company's electric rate case, Docket No. RPU-2013-0004. The Board approved a non-unanimous Settlement Agreement, with modifications, which will allow MidAmerican to increase its rates by $135.5 million annually, to be phased in over a three-year period. The Settlement Agreement, as modified, also contains a revenue sharing mechanism whereby customers receive the benefit of 80 percent of all earnings over 11 percent and 100 percent of all earnings above 14 percent.

In addition, the Settlement Agreement and Board decision will equalize rates among MidAmerican's three pricing zones over a ten-year period. The Board's decision also protects customers from unreasonable rate shock by capping annual increases.

MidAmerican is allowed to recover certain energy-related costs through an energy adjustment clause and certain transmission costs through a transmission cost adjustment. MidAmerican has agreed to a rate freeze through 2016, although it has the option of seeking relief if projected earnings fall below 10 percent.

[1] The purpose of this synopsis is to provide readers a brief summary of the decision. While the synopsis reflects the order, it shall not be considered to limit, define, amend, or otherwise affect in any manner the body of the order including the findings of fact and conclusions of law.

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I. INTRODUCTION AND PROCEDURAL HISTORY

On May 17, 2013, MidAmerican Energy Company (MidAmerican) filed with the Utilities Board (Board) proposed electric tariffs, identified as TF-2013-0094 and TF-2013-0095. In TF-2013-0094, MidAmerican proposed a temporary annual increase in its Iowa retail electric revenue of approximately $45.2 million. In TF-2013-0095, MidAmerican proposed a permanent annual increase in its Iowa retail electric revenue of approximately $135.6 million to be phased in over three years, with the first $45.2 million increase proposed to be effective on August 15, 2013, which was the deadline for the Board's decision on temporary rates. MidAmerican proposed another $45.2 million increase to be effective on January 1, 2015, and a third and final $45.2 million increase to be effective on January 1, 2016. These increases are in addition to a $76 million increase authorized in Docket No. RPU-2012-0001 that MidAmerican proposed to roll into base rates, beginning with temporary rates.

MidAmerican's rate case filing also included a proposed ten-year rate equalization plan to balance rates in MidAmerican's three pricing zones, which resulted from past acquisitions and mergers. MidAmerican's proposed consolidation of rates in the three pricing zones would begin in 2014. While the consolidation proposal is revenue neutral to MidAmerican, impacts on individual customers would vary depending on their customer class and pricing zone. Also as part of its rate filing, MidAmerican asked to implement two automatic adjustment clauses to recover certain costs associated with energy production and transmission of electricity.

The Board docketed MidAmerican's filing for further investigation and established a procedural schedule by order issued June 7, 2013. Eight consumer comment hearings were held throughout MidAmerican's electric service territory during June and early July 2013.

In addition to the Consumer Advocate Division of the Department of Justice (Consumer Advocate), intervenors in the proceeding are Deere & Company (Deere), the Environmental Law and Policy Center (ELPC), IBEW, Locals 109 and 409 (IBEW), the Iowa Environmental Council (IEC), the Iowa Industrial Customers for Affordable Power (IICAP), the Industrial, Commercial & Institutional Group (ICI Group), North Industrial Employers (NIE), and Walmart Stores, Inc. (Walmart).

The Board issued an order on June 24, 2013, requiring MidAmerican to provide additional information on several issues, including rate design. MidAmerican provided the additional information.

On August 15, 2013, the Board issued an order setting MidAmerican's temporary rates and approving its corporate undertaking to refund any temporary rates collected in excess of final rates approved by the Board. MidAmerican was granted a temporary increase that would produce additional annual revenue for MidAmerican of approximately $45.2 million, plus MidAmerican was allowed to roll into base rates the $76 million increase authorized by the Board in Docket No. RPU-2012-0001, for a total annual increase of $121.2 million in temporary rates. Compliance tariffs for MidAmerican's temporary rates were approved on September 23, 2013.

On October 31, 2013, the Board granted an extension from November 1 to November 4, 2013, for Consumer Advocate and intervenors to file rebuttal testimony. The extension was requested by IICAP and was unopposed.

On November 20, 2013, MidAmerican, Consumer Advocate, and ELPC/IEC filed a Non-Unanimous Settlement Agreement (Settlement). Consumer Advocate and MidAmerican settled all disputed issues between those two parties. ELPC/IEC entered into the Settlement only with respect to Article XVI, dealing with light emitting diode (LED) street lighting; ELPC/IEC did not take a position on other substantive provisions in the Settlement. A hearing was held beginning December 2, 2013. All parties had the opportunity to file post-hearing initial and reply briefs.

Following the hearing, MidAmerican filed Exhibits 1 through 14 (including a revised Exhibit 7), Deere filed Exhibits 301 through 305, IICAP filed Exhibits 201 through 228, and NIE filed Exhibit 601. Also, on December 10, 2013, MidAmerican filed additional information supporting certain requested waivers of the energy adjustment clause (EAC) rules, 199 IAC 20.9.

On December 23, 2013, the Board issued an order requiring MidAmerican to provide additional information. Pursuant to MidAmerican's request, the Board clarified and modified its order and granted an extension of time on December 31, 2013. All the information requested by the Board was filed by MidAmerican on or before January 21, 2014.

On January 29, 2014, the Board issued an order allowing intervenors an opportunity to comment on the additional information filed. NIE and IICAP filed comments on February 7, 2014.

On February 13, 2014, MidAmerican filed a motion to file comments in response to those filed by NIE and IICAP. The motion was granted by order issued February 25, 2014.

II. SUMMARY OF SETTLEMENT

MidAmerican's initial and rebuttal testimony indicated an annual revenue deficiency of about $294 million. Consumer Advocate filed supporting documents with the proposed Settlement supporting a deficiency of about $223,402,000; the primary difference was whether to allow certain post-test period environmental costs of about $40 million. The revenue deficiency agreed upon in the proposed Settlement is $263.553 million (which includes the post-test period environmental costs), with the increase to be phased in over three steps. These three steps are the $121.2 million in temporary rates, $45.15 million in 2015 and $45.15 million in 2016. In addition, $52.103 million would be transferred from MidAmerican's base rates to the proposed energy adjustment clause (EAC) and Transmission Cost Rider (TCA).

Under the proposed Settlement, MidAmerican would defer $50 million in depreciation expense annually and put this amount in a regulatory asset account that will be added to rate base in a future case. The customer share of any revenue

sharing will be used to offset these deferrals. If the deferrals are exhausted, the remaining dollars will be used to reduce rate base at Walter Scott, Jr. Unit 4.

The Settlement includes the TCA as originally proposed by MidAmerican. The settlement also includes an EAC which excludes wholesale revenues. Instead, under the proposed Settlement, wholesale revenues will flow directly into the revenue sharing calculation. Chemical costs will not flow through the EAC as MidAmerican had originally proposed and a representative amount of those costs will remain in base rates.

Revenue sharing in the proposed Settlement is based on the same methodology and calculations that were implemented in Docket Nos. RPU-01-03 and RPU-01-05 and reaffirmed in Docket No. RPU-03-1. The revenue sharing threshold will start at a return on equity of 11 percent and will be based on a sharing allocation of 80 percent going to the customer and 20 percent staying with MidAmerican.

Under the proposed Settlement, MidAmerican's revenues will be allocated based on MidAmerican's preferred model, discussed in Mr. Rea's rebuttal testimony as follows:

1. MidAmerican's Hourly Costing Model (HCM) will be modified to clearly delineate that retail fuel costs are captured through the energy component of the HCM and assigned to each hour of the year based on MISO LMP prices, and non-fuel costs are captured through the capacity component of the HCM;

2. Transmission costs will be allocated based on a 12 coincident peak (CP) allocator;

3. Distribution costs will be allocated based on a hybrid approach using a single system allocation, without any allocation of single-phase costs to the LGS and VLGS rate customers; and

4. Miscellaneous distribution costs for transformers, services, metering, and customer service costs will be allocated based on the Consumer Advocate's recommendations.

Under the proposed Settlement, MidAmerican would be allowed to adjust rates at the end of the phase-in to account for lost revenues due to customers switching to more favorable rates, but only if MidAmerican's ROE for the prior year and the year the rates were changed is below 11 percent. Rate Equalization would take place over ten years as originally proposed by MidAmerican.

No party to the proposed Settlement will be allowed to seek a rate increase or rate decrease prior to January 1, 2018, unless MidAmerican's return on equity (ROE) for any year from 2015-2017 is projected to fall below 10 percent.

MidAmerican's street lighting rate will be modified to clarify customer responsibilities related to the installation of light-emitting diode (LED) lights. In addition, MidAmerican will create a street light education sheet that will inform customers about potential savings from LED lights. MidAmerican will provide a copy of this letter to the ELPC/IEC.

Subrule 199 IAC 7.18(17A, 476) provides that the Board will not approve a settlement unless it "is reasonable in light of the whole record, consistent with law, and in the public interest." While the Settlement Agreement may not decide each issue the way the Board would after a contested hearing, the Board, viewing the Settlement Agreement as a whole, may approve it if it finds the overall settlement to be reasonable, in the public interest, and not contrary to any law. MidAmerican

Energy Company, "Order Approving Settlement and Requiring Reports," Docket No. RPU-2013-0003, p. 16 (8/9/2013).

MidAmerican emphasized in its briefs the benefits enjoyed by MidAmerican's customers for more than 16 years from a freeze in electric base rates and a revenue sharing agreement. MidAmerican noted that there were no rate initiatives by customers or the Board during this period and that MidAmerican has enjoyed positive customer satisfaction ratings by independent rating agencies. MidAmerican said that revenue sharing contributed to MidAmerican's low rates and allowed for the installation of 2,200 MW of wind, a coal facility, and a combined cycle gas facility without increasing customers' base rates.

MidAmerican said that the rate freeze and revenue sharing agreed to in the proposed Settlement will continue benefits for customers, as will the three-year phase-in of the increase, which is tied to approval of the two adjustment clauses. MidAmerican noted that it is voluntarily accepting a lower rate of return for non-ratemaking principle assets and its depreciation proposal also mitigates rate impacts. MidAmerican said the rate freeze is offered in the context of the overall Settlement and allows wholesale margins to continue to be used to provide rate stability. MidAmerican pointed out that the Settlement also allows all the benefits of Wind VIII to be realized; if the Settlement is not approved and MidAmerican has to file a rate case in 2014, the Wind VIII rate benefits would be eliminated and Wind VIII would be brought into rate base sooner than anticipated.

MidAmerican also said the Settlement provides a sound cost-of-service approach with the modified hourly costing model. However, MidAmerican did acknowledge that because of the two adjustment clauses that are part of the Settlement, there will not be as much price stability for customers as there would be without such clauses.

MidAmerican noted that several aspects of its plan are largely uncontested, such as the three-year phase-in, the 10-year plan to eliminate zonal disparities, the depreciation deferral, the time-of-use rate proposal, and the LED portion of the Settlement with ELPC/IEC.

Intervenors that did not sign the Settlement opposed parts of the proposed Settlement. While most of the briefs addressed the proposed Settlement in the context of the individual disputed issues, which the Board will do later in this order, IICAP and NIE offered some general comments on the settlement. IICAP argued that after rate stability for 15 years, MidAmerican overreached and has sought too much change in the proposed Settlement, such as two adjustment clauses, an untested costing model, phase-ins of revenue increases, equalization and true-ups, and an excessive cost of capital. NIE also objected to the adjustment clauses and said that supposed benefits of the proposed Settlement, such as the three-year phase-in, were illusory when coupled with two adjustment clauses and revenue sharing that applies only if returns exceed 11 percent.

The Board will now discuss separately the specific portions of the proposed Settlement that were contested.

III. REVENUE REQUIREMENT ISSUES

A. Environmental Costs

Environmental costs at three coal-fired generating units that MidAmerican owns, in whole or in part, are at issue here. The units are Ottumwa Generating Station (OGS), Neal 3, and Neal 4. The costs associated with the environmental projects have been reviewed in MidAmerican's and IPL's emissions plan and budget (EPB) filings. MidAmerican is a partial owner of OGS, but the plant is operated by IPL and included in IPL's EPB. The additions at Neal 3 and Neal 4 should be in service by the time final rates in this proceeding are effective; the OGS addition will not be in service until late 2014 and MidAmerican said it would include the costs in rates beginning in 2016, a year after it is operational.

Consumer Advocate initially opposed inclusion of environmental project costs that were not known and measureable on September 30, 2013, and stated that no OGS costs should be included because 2014, the in service date, is too far in the future. Consumer Advocate agreed to inclusion of these costs in the Settlement's revenue requirement because the timing of the OGS costs will support MidAmerican's rate phase-in in 2016. Also, Consumer Advocate said exclusion of these costs would mean MidAmerican would file a rate case in 2014, where additional costs imposed by MidAmerican's ongoing 1080 MW wind project would also be the subject of cost recovery. Consumer Advocate said inclusion of the environmental costs in the Settlement protects ratepayers from the costs of a 2014 rate proceeding and likely from higher electric rates.

ICI opposed inclusion of the environmental costs of OGS because they are being incurred more than 12 months after the rate case filing. ICI said inclusion of those costs violates the matching principle because there is no corresponding revenue adjustment and that the three-year rate phase-in does not justify approving these costs in rates at this time.

Inclusion of these costs as part of the Settlement is reasonable. The environmental equipment at Neal 4 was scheduled to be in-service by November 2013, within the 12-month time period following the filing of MidAmerican's rate case. Neal 3 is scheduled to be in service by mid-2014. Costs at both Neal 3 and Neal 4 were determined to be prudent in MidAmerican's most recent EPB proceeding, Docket No. EPB-2012-0156. A recent increase in costs was not the result of MidAmerican's imprudence but because of the unforeseen bankruptcy of a supplier, forcing MidAmerican to find another supplier. The new environmental equipment at Neal 3 and 4 is not income producing so there are no matching issues and a revenue adjustment is not necessary.

The costs associated with OGS were addressed in IPL's most recent EPB, Docket No. EPB-2012-0150. Inclusion of these costs is more problematic because the environmental improvements will not be in service until later this year (2014). Environmental efficiency improvements at OGS could increase the unforced capacity of the plant, meaning that there could be a slight increase in MidAmerican's wholesale sales as a result, but a matching revenue adjustment is not required because wholesale revenues will either be addressed in the Settlement's revenue

sharing mechanism or flowed through MidAmerican's EAC; this issue will be addressed subsequently in the order.

Iowa Code § 476.33(4) requires the Board to consider changes that occur within 12 months of the filing of the case. The statute does not prohibit consideration of changes beyond that date (or compel the Board to accept all changes within 12 months of filing). The OGS improvements are clearly beyond the 12 month period.

Inclusion of these costs in the revenue requirement avoids an all but certain rate proceeding in 2014 (if the costs were disallowed) and preserves the three-year phase-in, both of which have significant benefits to customers. Rate case expense, which will exceed $1 million in this proceeding, is normally included in customers' rates, so avoiding a rate case has significant cost advantages. Similarly, the three-year phase-in has obvious benefits to customers. Therefore, these costs will be included.

It is also significant that the OGS costs are not being used to support MidAmerican's first phase or second phase increases. The OGS costs are not needed to support the revenue requirement until 2016, over a year after the OGS improvements are projected to be operational.

The Board recognizes that the OGS improvements are not yet installed and operational. MidAmerican will not be allowed to implement the third year of the revenue phase-in until it has notified the Board that the new OGS environmental equipment is used and useful (i.e., completed and operational). MidAmerican shall

promptly notify the Board when the OGS environmental project is completed and operational.

B. Sales Growth

There was some discussion about whether sales growth adjustments should be made and whether all classes warranted such an adjustment. However, as discussed later in this order, because the Board will accept the revenue requirement contained in the proposed Settlement as reasonable, this issue does not need to be further addressed because the evidence presented does not persuade the Board that any additional adjustments are needed to the revenue requirement.

C. Depreciation Reserve

There were three parts of the depreciation reserve issue. The first is the depreciation study provided by MidAmerican. This study was conducted by Mr. Spanos, a depreciation specialist and past president of the Society of Depreciation Professionals. (Tr. 314-317) The methodology for the study included the straight line remaining life method of depreciation with the average service life procedure. The method seeks to distribute the unrecovered cost of fixed capital assets over the estimated remaining useful life of each unit, or group of assets, in a systematic and rational manner. (Tr. 320) The depreciation study was not contested by any party.

The second part of the depreciation reserve issue is the depreciation deferral contained in the proposed Settlement. Article VII of the proposed Settlement provides:

> For settlement purposes, the Parties agree that Company shall establish a voluntary depreciation deferral. The deferral will reduce annual depreciation expense by approximately $50.0 million with an offsetting increase to regulatory assets. The regulatory asset created by the deferrals will be included in rate base for purposes of revenue sharing calculations and future rate filings.

While the proposed Settlement Agreement provides that the regulatory asset created by the deferrals will be included in rate base for purposes of revenue sharing calculations and future rate filings, the Settlement is not completely clear as to whether the regulatory asset would earn a return for MidAmerican. It is the Board's understanding of the proposed Settlement that MidAmerican will not earn a return on the depreciation reserve, but that if the account goes negative (because of revenue sharing credits), a return would be credited to the account, which would benefit customers.[2] MidAmerican's adjustment, which was not contested, reduces depreciation expense by about $50.0 million and reduces the rate increase by about $17.0 million for each of the three years of the phase-in. (Tr. 477) The depreciation adjustment is proposed to continue for 15 years.

The deprecation adjustment contained in the proposed Settlement will be approved, with two modifications or clarifications. The Board is concerned that the depreciation deferrals, if not offset by any revenue sharing, would increase to $750 million after a 15-year deferral period. This amount could result in an approximate

[2] In fact, the account should not go negative because the Settlement provides that if there is no balance in the depreciation deferral account, any revenue sharing would be used to accelerate deprecation on Walter Scott unit 4.

$100 million annual increase in MidAmerican's electric rates at that time. To protect customers from such a large future increase, the Board will cap the amount that can be in the regulatory asset account created by the depreciation deferral at $300 million. This does not mean that the total depreciation deferral is limited to $300 million, but only that the regulatory asset account created by the deferral can never exceed $300 million. For example, after seven years, there would be $350 million in depreciation deferrals. However, if $100 million has been offset by revenue sharing, the balance of the regulatory asset account would be under $300 million, and the deferrals would continue.

The second caveat is more a clarification than modification. The Board understands that the depreciation deferral will mitigate rates by $17 million for each of the first three years. The Board also understands that no more depreciation than necessary will be deferred to obtain this customer benefit.

In a future MidAmerican rate proceeding, the Board will determine how the regulatory asset account created by the depreciation deferral will be recovered by MidAmerican. For example, recovery of the asset could be phased-in over a time period to avoid unreasonable immediate rate impacts. In other words, the Board will not in this proceeding adopt or determine any future regulatory treatment for the regulatory asset.

The third part of the depreciation reserve issue relates to Deere's proposal for an additional depreciation adjustment to further mitigate MidAmerican's rate increase. Deere said that MidAmerican's proposal does not address the $673 million depreciation reserve surplus for the Iowa jurisdiction that is calculated for MidAmerican's plant accounts for production, transmission, distribution, and general plant that are not subject to advance ratemaking principles treatment. (Tr. 501, 664, 743; Ex. JP-17) Deere argued that a depreciation reserve surplus exists when book depreciation is higher than the calculated accrued depreciation; this is called the theoretical reserve. Deere said that the revenue sharing mechanism that MidAmerican has had in place for the past 15 years is the primary contributing factor to this depreciation reserve surplus because customers' portion of any excess earnings was used to accelerate depreciation. (Tr. 802-803, 807-809; Ex. 305) Deere asked that the surplus be used to mitigate the rate increase over an eight-year amortization period.

MidAmerican and Consumer Advocate opposed the additional adjustment proposed by Deere. Consumer Advocate noted that MidAmerican has used the remaining life technique for developing depreciation rates for over 15 years and that this method does not require a calculation of the theoretical reserve; the theoretical reserve is calculated only to compare current events to previous estimates that were used to calculate depreciation. (Tr. 332, 338, 342) Consumer Advocate said that the theoretical reserve is valid only at the time it is calculated since changes in the parameters that impact depreciation rates change the theoretical reserve. (Tr.332)

Consumer Advocate pointed out that there could be a surplus or deficiency in the theoretical reserve because the various items involved in calculating depreciation change over time. (Tr. 487-488)

Both MidAmerican and Consumer Advocate argued that Deere's proposed adjustment would violate Generally Accepted Accounting Principles (GAAP). MidAmerican and Consumer Advocate said that under GAAP, only prospective changes in depreciation are generally permitted and not reversals of previously recorded GAAP depreciation. (Tr. 488) Consumer Advocate noted that acceptance of Deere's proposal would require altering prior depreciation rates.

MidAmerican also argued that deviation from GAAP accounting would require MidAmerican to create another set of books, one for public consumption in such things as Securities and Exchange Commission filings and another for state regulatory purposes. MidAmerican said confusion can result when different earnings are reported for different purposes. (Tr. 514) In addition, MidAmerican said that Deere's proposed adjustment is not consistent with the recommendation in the National Association of Regulatory Utility Commissioners' Public Utility Depreciation Practices, which points out the norm for making depreciation adjustments is to make adjustments over the remaining lives of the assets. (Tr. 337)

MidAmerican said that Deere's proposal would reduce costs for customers for eight years but result in a large increase in year nine. (MidAmerican Reply Brief, p. 44) MidAmerican noted that its adjustment matches depreciation expense recovery

with the useful lives of assets consistent with longstanding regulatory practice in Iowa.

Deere's proposed adjustment is based on a theoretical account balance that will change over time for many reasons and it will not be known until an asset is retired whether any theoretical surplus or deficiency is accurate. MidAmerican's method uses the remaining life of an asset, which results in the theoretical reserve for any individual asset being reduced to zero by the time it is retired.

The Board is concerned that under Deere's proposal, current customers would receive a benefit at the expense of future ratepayers because of the significant increase in rates (about $90 million) that MidAmerican projects in year nine if Deere's proposal is adopted. This increase would subject future customers to an unwarranted increase for the benefit of today's customers. MidAmerican's remaining life method to deal with any theoretical reserves moderates the recovery pattern and does not contribute to volatility in rates.

The Board will reject Deere's adjustment. MidAmerican's depreciation proposal does not require a theoretical reserve but uses the well-established remaining life method for depreciation, with the theoretical reserve calculated only to compare current events to previous estimates that were used to calculate depreciation. MidAmerican's remaining life method is consistent with GAAP accounting and has been used in prior depreciation studies.

The Board notes that while Deere presented its proposed adjustment as being in addition to MidAmerican's deferral, MidAmerican indicated it would withdraw from

the deferral provision in the Settlement if Deere's proposal were adopted. MidAmerican said it would withdraw from that portion of the Settlement because it would no longer be needed to mitigate rate impacts. Between the two alternatives, MidAmerican's, as modified by the Board, is superior and supported by the most persuasive evidence.

IV. COST OF CAPITAL ISSUES

A. Return on Equity

In setting an allowed rate of return on equity investment, the Board is to balance investor and consumer interests. For example, if rates produce earnings that are below a fair and reasonable level, they are unjust or confiscatory to the owners of the utility property; if rates produce earnings that are above a fair and reasonable level, the rates are oppressive to the utility's ratepayers. Davenport Water Co. v. Iowa State Commerce Comm'n, 190 N.W.2d 583, 604-05 (Iowa 1971). In addition, the U.S. Supreme Court in Federal Power Commission v. Hope Natural Gas Company, 320 US 591 (1944) held that "the return to the equity owner [the utility] should be commensurate with returns on investments in other enterprises having corresponding risks. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain credit and attract capital ...."

In determining the allowed return, the various models generally produce a range for the Board to consider. There is no precise return on equity that is accurate

or the only one that is appropriate, but a range of reasonable returns. Within that range, the Board determines the most appropriate return, balancing the interests of shareholders and ratepayers.

MidAmerican, Consumer Advocate, IICAP, and ICI Group presented ROE testimony. Walmart filed comments on the issue. MidAmerican's witness recommended an ROE of 10.8 percent, which included a flotation cost adjustment. Without a flotation adjustment, MidAmerican's recommended ROE would be 10.56 percent. However, MidAmerican said it reduced the recommended ROE to 10 percent for its non-ratemaking principles rate base to mitigate the impacts the rate increase would have on its customers. Consumer Advocate initially recommended a 9.3 percent ROE but agreed to 9.9 percent in the Settlement. The Settlement ROEs are different because MidAmerican and Consumer Advocate each provided a set of exhibits supporting the agreed-upon revenue requirement; MidAmerican used a 10 percent ROE and Consumer Advocate a 9.9 percent ROE. IICAP recommended a 9.25 percent ROE, and ICI Group recommended a 9.0 percent ROE. Walmart did not provide its own analysis but supported IICAP's analysis and suggested that the Board consider the ROEs established in advance ratemaking principles cases when deciding the appropriate ROE for the remainder of MidAmerican's rate base.

While MidAmerican and Consumer Advocate each used a different ROE to support the agreed-upon revenue requirement, they agreed on the ROEs that would trigger revenue sharing or a potential end to the rate freeze. Revenue sharing is triggered pursuant to Article XI of the proposed Settlement if MidAmerican's ROE

exceeds 11 percent. In Article XV of the proposed Settlement, MidAmerican is prohibited from seeking an electric rate increase to become effective prior to January 1, 2018, unless its projected ROE falls below 10 percent in 2015, 2016, or 2017.

All of the ROE witnesses use the discounted cash flow (DCF) model. MidAmerican and IICAP also used the risk premium model. The capital asset pricing model (CAPM) was used by MidAmerican, Consumer Advocate, and IICAP.

In presenting the various ROE models, there were arguments made not only with respect to the final recommendation but also with respect to some of the inputs and the validity of some of the models. Some intervenors argued against MidAmerican's use of the quarterly compounding version of the DCF model, stating that it provides a double return to shareholders. They also argued against the allowance of flotation costs in the DCF analysis. (Tr. 290-291, Tr. 1763-1764) There were disputes about how to determine the anticipated growth rate, such as whether to use historical data or forecasts. (Tr. 1767, 1775, 1784-1785) The Board's preferred DCF method, often called the Federal Energy Regulatory Commission (FERC) model, increases the dividend yield by 1 + .5g (expected rate of growth in dividends per share). However, the Board recognizes that there is no perfect DCF model, and the Board looks at the results of all the DCF models as one tool in determining a utility's ROE.

Various parties also used the risk premium model. In its simplest form, the risk premium model takes a specific long-term debt interest rate and adds an associated risk premium to estimate the ROE.

The CAPM was also used by various parties. Historically, the Board has not given much weight to any CAPM analysis because there were concerns about its reliability. However, the Board has considered the results from the CAPM as another tool in its ROE determination and will do so here.

As noted earlier, the initial ROE recommendations ranged from 10.8 percent (MidAmerican) to 9.0 percent (ICI Group). In determining the appropriate ROE range for consideration, the Board will subtract MidAmerican's flotation adjustment, which produces an ROE recommendation of 10.56 percent, the high-end of the range.

For the lower end of the range, the Board finds 9.0 percent to be unreasonably low and will use IICAP's 9.25 percent recommendation as the low-end of the reasonable ROE range; IICAP's witness provided a thorough analysis using all three models (DCF, risk premium, and CAPM) that the Board normally considers in determining the appropriate ROE. The midpoint of the resulting range (9.25 percent to 10.56 percent) is 9.9 percent, which is the figure Consumer Advocate used in its revenue requirement calculations. A 10 percent ROE, which MidAmerican used in its calculations, is also supported by the evidence. While the Board does not use other state commissions' ROEs as a factor in making its determination, the Board notes that evidence of ROE awards from other states tends to confirm that a 9.9 or 10.0 percent award is within the range of reasonableness.

In determining the ROE, the Board specifically rejects arguments that the Board should consider the ROEs awarded in ratemaking principles proceedings for certain specified assets when determining the ROE for the remainder of an electric utility's assets. Iowa Code § 476.53 directs the Board, if certain conditions are met, to set advance ratemaking principles for specified generation assets. The statute was enacted to encourage utility-built generation in Iowa, and there is nothing in the statute that directs the Board to use ROEs awarded in such cases as a factor in determining ROE on the remainder of an electric utility's assets in a general rate proceeding.

A 9.9 percent or 10 percent ROE is supported by the evidence in the proceeding on a stand-alone basis without the other provisions contained in the proposed Settlement. However, the other Settlement terms provide additional support for the reasonableness of the ROEs contained in the Settlement.

For example, MidAmerican agreed to phase in its revenue increase over three years such that it will only earn an ROE of 6.6 percent in 2014 and 8.3 percent in 2015 on those assets that do not have pre-established ROEs from ratemaking principles proceedings. (Tr. 476) MidAmerican will not have an opportunity to earn a 10 percent ROE on those assets until 2016. Also, as noted by Consumer Advocate, the revenue sharing mechanism agreed to in the proposed Settlement is much more favorable to customers than MidAmerican's original proposal; the Settlement provides that 80 percent of any revenue sharing benefits customers. Consumer Advocate said in its initial post-hearing brief at page 29:

> As part of a settlement package that preserves significant upside revenue potential for customers, considering MidAmerican's enhanced potential with its recent wind generation expansion, the ROE and revenue sharing threshold is reasonable and consistent with the public interest. Although the inclusion of fuel and transmission cost trackers shifts cost risks to customers and reduces MidAmerican's interest in managing such costs, the revenue sharing terms in the Settlement Agreement provide a steady financial incentive for MidAmerican to manage such costs and optimize revenues.

The Board will find that the ROEs contained in the Settlement are reasonable.

B. Capital Structure

Historically, the Board uses a 13-month average capital structure to determine a utility's weighted average cost of capital. Both MidAmerican and Consumer Advocate used a 13-month average capital structure, with the main difference being that Consumer Advocate does not include preferred stock in its capital structure. In the proposed Settlement, MidAmerican and Consumer Advocate each use their respective capital structures to determine the agreed upon revenue requirement.

The only dispute with respect to capital structure is IICAP's proposal to use a hypothetical capital structure that includes less common equity (50.5 percent) than what is included in MidAmerican's books (52.6 percent). IICAP contended that MidAmerican manipulated its capital structure by increasing its common equity for the test year. IICAP said that MidAmerican's current equity ratio is higher than the 2009 through 2011 time period and the current higher ratio unnecessarily increases the revenue requirement. (Tr. 843-844) IICAP argued that a capital structure with a common equity balance of 50.5 percent would be consistent with MidAmerican's ratio

for the three years prior to the 2012 test year and consistent with the average common equity ratio of the proxy group of 49.1 percent. (Tr. 848)

MidAmerican said it is not surprising its common equity ratio was higher in the test year because of a change in retained earnings, given MidAmerican's $1.9 billion investment in the Wind VIII project and $550 million investment in transmission assets. (Tr. 228) MidAmerican pointed out at hearing that Consumer Advocate recognized the importance of making sure that a utility does not abuse or exacerbate common equity balances, but Consumer Advocate concluded there was no evidence of abuse in this case. (Tr. 1789-1790) MidAmerican said the Settlement adopts a capital structure consistent with Board precedent.

MidAmerican provided a table showing that its common equity ratio since 1999 varied from 47.18 percent to 54.79 percent and was higher in years when cash commitments were needed to build earlier wind projects. MidAmerican said the evidence shows that the capital structure used in the Settlement is representative and should be adopted.

MidAmerican's common equity ratio is within the range suggested by its prior equity ratios and there is no evidence that MidAmerican's structure is unreasonable or was manipulated by MidAmerican for the purpose of obtaining a higher common equity ratio during the test year. While IICAP said that MidAmerican was able to maintain its A- bond ratings during times when its common equity ratio was close to 50 percent, citing a March 2013 Standard & Poor's report, MidAmerican correctly noted that this report predated Board approval in August 2013 of ratemaking

principles for the $1.9 billion Wind VIII project. (Tr. 243-245) Such a project, coupled with $550 million of transmission investment, can impact the common equity ratio. Consumer Advocate noted that after updating its proposed capital structure, MidAmerican's common equity ratio fell to 50.573 percent, close to the level proposed by IICAP. (Ex. 105)

MidAmerican's capital structure is not so far removed from proxy group comparisons or historical average to suggest that a hypothetical capital structure is required, either because the capital structure is unreasonable or because it was manipulated by MidAmerican. While a hypothetical capital structure can be utilized if the capital structure is unreasonable or to prevent abuse or manipulation of a utility's capital structure, no persuasive evidence suggests that the capital structure is unreasonable or that there was an abuse or manipulation. The changes throughout the last several years reflect, at least in part, changes in MidAmerican's level of investment, particularly in wind projects. The Settlement Agreement provisions regarding capital structure are reasonable and will be adopted.

V. ADJUSTMENT CLAUSES

A. Energy Adjustment Clause

MidAmerican is asking to reinstitute an EAC as part of this proceeding. During MidAmerican's 16 year revenue freeze, it did not utilize an EAC but instead recovered an amount for EAC-type costs through base rates. MidAmerican said its proposed EAC followed the Board's rules in 199 IAC 20.9 with some exceptions, the

most significant of which is that test year wholesale margins are included in base rates while margins above test year levels are excluded from the EAC; the wholesale margins are used in MidAmerican's proposed revenue sharing mechanism. (Tr. 1447) In the proposed Settlement, Consumer Advocate agreed to MidAmerican's EAC proposal, except that chemical costs related to environmental requirements were excluded from the EAC and a representative level of chemical costs was included in proposed base rates. (Tr. 1729-1730) Several intervenors opposed the EAC proposal in the Settlement, with the opposition focused on the exclusion of wholesale sales above test year levels.

MidAmerican said that exempting wholesale margins from the EAC would allow both ratepayers and shareholders to benefit from off-system sales. MidAmerican noted that customers would benefit from the approximately $30 million in wholesale margins that are embedded in test year rates and that margins in excess of this amount would be accounted for in the proposed revenue sharing mechanism. (Tr. 1502) Once MidAmerican's earnings reach 11 percent, MidAmerican said that 80 percent of all earnings would go to reduce the balance of the depreciation deferral. MidAmerican also noted it was proposing to flow production tax credits and revenues from renewable energy credits through its EAC, both of which benefit ratepayers.

While MidAmerican was able to operate without an EAC for about 16 years, MidAmerican said its fuel costs have increased substantially in recent years. Also, MidAmerican said that its new freight contracts, other expected cost increases, and

reduction of production tax credit revenues will lead to increased volatility in fuel costs. MidAmerican said that the EAC allows MidAmerican to phase in the impact of the base rate increase, and if the EAC (and TCA) are disallowed, MidAmerican would likely bring full rate cases in 2015 and 2016.

Consumer Advocate noted that it disagreed with MidAmerican's initial EAC proposal, which would have excluded wholesale margins and allow MidAmerican to retain a larger portion of any revenue sharing. However, Consumer Advocate said the Settlement, which provides that customers will receive 80 percent of all earnings above 11 percent, mitigates the risk to ratepayers and also gives MidAmerican an incentive to manage fuel costs and pursue off-system sales. Consumer Advocate stated that MidAmerican also agreed to exclude chemical costs related to environmental requirements from the EAC. (Tr. 1729-1730)

Consumer Advocate pointed out that as part of the proposed Settlement, MidAmerican agreed that its retail customers will be allocated the lowest generation costs. Also, Consumer Advocate noted that the inclusion of test year margins in base rates guarantees that customers receive a set benefit from wholesale sales, even if margins fall below test year levels. Finally, Consumer Advocate said that any additional wholesale margins above test year levels will be accounted for in the proposed revenue sharing mechanism.

IICAP did not dispute MidAmerican's right to have an EAC but objected to exclusion of margins from wholesale sales. IICAP said that the Board's EAC rules in 199 IAC 20.9 provide that wholesale margins flow through the EAC. IICAP argued

that including wholesale margins in revenue sharing is not a sufficient substitute because customers would receive no benefit from those margins unless MidAmerican's earnings reached the 11 percent threshold, and then customers would only receive 80 percent of the benefit. IICAP noted that it did not oppose a revenue sharing mechanism for other excess returns, although it said there should be a cap above which all profits are returned to customers.

NIE objected to exclusion of wholesale margins in MidAmerican's proposed EAC because including those margins in the EAC would result in customers receiving 100 percent of the benefit of those margins. Also, NIE objected to the EAC proposal generally, arguing that moving fuel costs from base rates to an EAC reduces MidAmerican's incentive to minimize costs. If an EAC is approved, NIE said that 15 percent of those costs should be included in base rates, with the remainder flowing through the EAC.

Deere argued that wholesale margins should be included in the EAC, stating that customers would receive no benefit from these margins under revenue sharing because MidAmerican's own projections show there will be no revenue sharing through 2016. (Tr. 679) Deere said that including wholesale margins in the EAC should not provide any disincentive for MidAmerican to maximize these sales because MidAmerican has an obligation to provide retail service at the lowest possible cost. (Tr. 681) Deere also argued that MidAmerican had not justified a waiver of the EAC rules to exclude wholesale margins.

Walmart said that EACs generally are poor ratemaking policy because they reduce the utility's incentive to minimize costs. Walmart also argued that exclusion of wholesale margins is contrary to the Board's EAC rules.

Board rule 199 IAC 20.9(1) states that an automatic adjustment of electric utility energy rates shall recover from consumers only costs that:

1. are incurred in supplying energy;
2. are beyond direct control of management;
3. are subject to sudden important change in level;
4. are an important factor in determining the total cost to serve; and
5. are readily, precisely, and continuously segregated in the accounts of the utility.

The main focus of the EAC objections in this proceeding is the exclusion of wholesale margins and the utilization of those margins in the revenue sharing mechanism. Consumer Advocate's concerns about MidAmerican's original proposal were alleviated in the Settlement by the exclusion of certain chemical costs from the EAC and a higher percentage of revenue sharing to customers. The evidence demonstrated that MidAmerican met the standards contained in the rules for an EAC.

Before addressing wholesale margins, NIE proposed that if MidAmerican is allowed to use an EAC, then the Board should include 15 percent of associated fuel costs in base rates and have the remaining costs flow through the EAC in order to give the company an incentive to minimize fuel costs. This concept is similar to the EAC formula that the Board had in place many years ago. The old formula called for

an annual adjustment to base rates to incorporate the average fuel costs from the prior year. The monthly EAC would then be a positive or negative adjustment added to the embedded base rate amount. This concept was confusing to customers because the EAC could be negative, which gave customers the impression that fuel costs were negative. In addition, some customers thought that they could potentially be paying for fuel costs twice, once through the base rate and once through the EAC. The Board will not adopt this proposal because of the risk of customer confusion and the administrative complexity that would be added. The Board believes that sufficient safeguards are in place to ensure that MidAmerican's rates are just and reasonable, as will be discussed in more detail below.

With respect to wholesale margins, it is important to remember that MidAmerican is not proposing to include all of those margins in the revenue sharing calculation. The amount of test year wholesale margins (approximately $30 million) will be included in base rates. This ensures that customers will receive that benefit, even if wholesale margins in a given year fall below $30 million. At least for this portion of wholesale margins, customers receive a greater benefit than if those margins were included in the EAC because the benefit is more certain.

Under the Board's rules, all wholesale margins would normally flow back to the customer as a credit in the EAC.[3] Under MidAmerican's proposal and also in the

[3] 199 20.9(2)b(5) The energy costs paid for energy purchased under arrangements or contracts for firm power, operational control energy, outage energy, participation power, peaking power, and economy energy, as entered into account 555 of the Uniform System of Accounts**, less the energy revenues to be recovered from corresponding sales,** as entered in account 447 of the Uniform System of Accounts.

Settlement, wholesale margins would be excluded from the EAC and shared as determined by MidAmerican's annual earning levels. In the context of the overall Settlement, including a revenue sharing plan that returns 80 percent of the benefits to customers and the credit of $30 million in wholesale revenues reflected in base rates, MidAmerican's EAC proposal is reasonable.

The Board has broad discretion with respect to adjustment clauses and there is no statutory mandate that a clause meet the five standards contained in 199 IAC 20.9. It is reasonable here to waive the rule's requirements that wholesale margins flow through the EAC, given the $30 million guarantee and revenue sharing proposal, as well as the phase in of the base rate increase to mitigate customer impact. The standards of 199 IAC 1.3 have been met. The application of the rule would pose undue hardship on MidAmerican and its customers by denying them the benefit of the $30 million guarantee, revenue-sharing, and phase-in. In addition, if rate cases were brought in 2015 and 2016, MidAmerican's customers would bear the expense of those cases. The waiver does not prejudice the substantial rights of any person because of the benefits customers will receive, and the provision regarding wholesale margins is not mandated by statute. The Settlement's provisions provide substantially equal (if not greater) protection of health, safety, and welfare than would application of the rule in these circumstances.

The standards of 199 IAC 1.3 have also been met with respect to flowing production tax credits, renewable energy credits, CO2 credits, and other environmentally-related benefits through the EAC. The flowing of these items

through the EAC provides immediate benefit to customers by reducing the overall rates they will pay. The annual adjustment of the EAC proposed by MidAmerican also benefits customers by maintaining stability in the amount of the clause on a year-to-year basis; the Board will not allow MidAmerican the option to make any mid-year adjustments.

One concern raised with the EAC is that MidAmerican would not have an incentive to minimize its fuel costs. However, MidAmerican has a statutory obligation to provide electric service at just and reasonable rates. Iowa Code § 476.8. To ensure that MidAmerican is fulfilling its statutory duty, the Board will commence a proceeding in 2015, pursuant to Iowa Code § 476.6(13) and 199 IAC 20.13, to evaluate the reasonableness and prudence of MidAmerican's procurement and contracting practices related to the acquisition of fuel for use in generating electricity. MidAmerican is to file information and direct testimony pursuant to the schedule outlined in 199 IAC 20.13. It is important for the Board and other parties to periodically examine fuel and contracting practices so that customers are assured that the rates they are paying are just and reasonable and that the utility is taking all reasonable actions to minimize its fuel costs.

B. Transmission Cost Adjustment

In addition to an EAC, the proposed Settlement allows MidAmerican to implement a transmission cost adjustment (TCA) clause as set forth in Schedule D of the Settlement. MidAmerican said the EAC and TCA are significant elements of

MidAmerican's comprehensive plan to limit the impact of increased rates on customers which would occur absent the proposed adjustment clauses.

MidAmerican said the TCA was designed primarily to recover MidAmerican's share of costs associated with regional transmission infrastructure, such as Midcontinent Independent System Operator, Inc. (MISO), multi-value projects, also known as MVPs. Under MISO's tariff, the costs of the MVPs will be allocated throughout the MISO region with MidAmerican being charged through MISO's rate process approximately four to five percent of the total annual MVP costs. (Tr. 956) MidAmerican also included in the TCA certain costs, such as MISO administrative costs, that MidAmerican said are outside of its control. MidAmerican noted that revenue and cost accounts associated with its transmission facilities built and used to serve MidAmerican's retail load would remain in base rates and be subject to traditional regulatory treatment. MidAmerican said a credit has been built into the proposed TCA tariff to prevent double recovery of certain costs related to the MVPs. (Tr. 971)

MidAmerican noted that its MISO-assessed transmission costs proposed to be recovered through the TCA are projected to increase from $6.3 million in 2012 to $42.1 million in 2019. (Tr. 982) MidAmerican said the alternative to the TCA, a series of rate cases, would be disruptive, costly to customers, and deprive customers the benefits of the three-year phase-in and savings resulting from the delay in recognizing Wind VIII in rates.

MidAmerican said that the Board has the authority to approve a TCA for MidAmerican pursuant to Iowa Code § 476.6(8). While MidAmerican said the factors in 199 IAC 20.9 (EAC guidelines) do not have to be satisfied, MidAmerican argued that the TCA nevertheless meets the five guidelines; the three guidelines that appear to be contested are management control, subject to sudden important change in level (what some have labelled "volatility"), and an important factor in determining total cost to serve.

First, MidAmerican said the costs are not subject to its direct control because the costs represent MISO costs that have been approved or accepted for filing by FERC. Second, MidAmerican said the TCA costs will fluctuate between about $6.3 million in 2012 and about $42.1 million in 2019. (Tr. 982) Third, the costs are significant and MidAmerican noted that the charges in 2019 represent almost one-year of the rate increase that MidAmerican proposes to phase in. Also, while MidAmerican retains ownership of its transmission facilities, the costs that will go through the TCA are primarily with respect to facilities not owned by MidAmerican, similar to IPL's transmission rider costs because IPL does not own transmission facilities.

Consumer Advocate said approval of the proposed TCA clause is consistent with the process for approval of IPL's rider because IPL's rider was conditioned upon a three-year rate freeze. Consumer Advocate stated that MidAmerican has agreed to such a freeze in this docket. Consumer Advocate said the record demonstrated that MidAmerican can influence (but not control) transmission rate-related matters at

MISO and FERC in a variety of ways and committed to using that influence in the interest of MidAmerican's customers. (Tr. 971, 984-985) Also, Consumer Advocate noted that the true-up process provides an opportunity to consider the prudence of the costs and assure that transmission-related costs and revenues are appropriately assigned. (Tr. 973-974)

Deere argued that the TCA constituted piecemeal ratemaking because the amount recovered through the clause would be periodically reset and the proposed TCA collects only a subset of MidAmerican's overall transmission costs. Deere said it was unclear under MidAmerican's proposal whether it was proposing to net through the TCA any jurisdictional revenues MidAmerican receives from MISO to offset corresponding costs collected through the TCA, such as revenues through MISO Schedule 26. Prior to approving any TCA, Deere maintained that the Board should require MidAmerican to net any jurisdictional transmission revenues associated with the jurisdictional related costs that would be collected through the TCA because this would provide a more symmetrical treatment of transmission revenues and expenses. (Tr. 684; Exh. JP-12, p. 20).

ICI also stated that the proposed TCA constituted piecemeal ratemaking. ICI argued that MidAmerican is not similar to IPL (which has a transmission adjustment clause) because MidAmerican owns its transmission system and therefore is in a better position to manage costs and revenues; IPL purchases transmission service from other transmission owners utilizing the MISO tariffs. (Tr. 297, 300, 303)

Walmart argued that the proposed TCA represented poor ratemaking policy because the adjustment clause allows for a change in rates without any consideration of offsetting revenue increases or expense decreases. Walmart said the clause also reduces MidAmerican's incentive to control costs that are subject to recovery under the TCA. With the revenue sharing plan, Walmart said the TCA was unnecessary because the surplus depreciation reserve could be used to maintain MidAmerican's earnings if they fall below a threshold level.

Walmart also argued that the TCA did not meet the requirements of the Board's rules in 199 IAC 20.9 because transmission expense is not volatile and the transmission costs sought to be recovered represent less than one percent of MidAmerican's total Iowa operations and maintenance expense. If a TCA is approved, Walmart argued it should not only recover costs but associated revenues, such as revenues in FERC Account 456.1—Revenues for Transmission of Electricity of Others.

NIE argued that MidAmerican had not satisfied the standards in 199 IAC 20.9 for a TCA, noting that the costs are not energy costs, do not experience a sudden change in level, and are not an important part of MidAmerican's cost to serve because they are forecasted to be no more than two to three percent of MidAmerican's revenue requirement for the next 10 years. (Ex. 4). NIE also maintained that the TCA would take away any incentive for MidAmerican to advocate for lower transmission rates and that ratepayers would be harmed by the clause

because MidAmerican does not propose to flow any revenues through the rider. (Tr. 993-994)

IICAP acknowledged that Iowa Code § 476.6(8) allows for automatic adjustment mechanisms, but that the Board is not required to approve any particular rider. IICAP said the proposed rider failed to meet at least three of the factors found in 199 IAC 20.9—control, volatility, and an important factor in determining cost to serve. IICAP pointed out that the transmission costs subject to the proposed rider are less than 1 percent of MidAmerican's total operations and maintenance expense (as calculated by IICAP's witness) and less than 2 percent (as calculated by MidAmerican's witness). IICAP said that after a few years the TCA cost increases level off at approximately $4.5 million per year and that a TCA removes any incentive for MidAmerican to maximize its use of the MISO process for the benefit of its ratepayers.

If the Board approves the TCA, IICAP said, the adjustment clause should be significantly changed. First, to the extent MISO-related costs are flowed through the TCA, MISO-related revenue above the test year amount should be credited through the TCA. Second, if the Board does not include wholesale margins in the EAC, MISO Schedule 2 revenues should be included in the TCA, which is how IICAP said those revenues are treated in IPL's transmission rider. Schedule 2 charges are for reactive supply and voltage control. Third, if MidAmerican wants what it calls a "separate jurisdiction" for the costs passed through the TCA, then nothing should cross into or out of that jurisdiction from the Iowa regulated jurisdiction. Fourth,

IICAP said that future, unknown MISO charges should not be allowed to flow through the TCA without Board review and approval.

Costs that the proposed TCA would include are charges imposed under MISO Schedule 9 (network transmission service) to serve load outside of the MidAmerican zone, Schedule 10 (MISO administrative costs), Schedule 10-FERC (FERC administrative charges to MISO), Schedule 26 (MISO region-wide allocations of baseline reliability projects, generator interconnection projects, and regionally-planned market efficiency projects), and Schedule 26-A (allocation of regionally-planned multi-value projects). Tr. 942, 944. A credit is also built into the TCA to prevent double recovery of certain costs related to the MVPs. (Tr. 971-972). All other MidAmerican transmission costs would be recovered in base rates.

There was much discussion by various parties as to whether the proposed TCA meets the five criteria set forth in 199 IAC 20.9(1). While the criteria in the rule specifically apply to an EAC, the Board has used the criteria as guidelines when considering other adjustment clauses. The first guideline is whether the costs are incurred in supplying energy. While at least one intervenor argues that transmission costs are not energy costs, clearly the energy generated at power plants would not be usable unless transported over transmission lines. Guideline one is satisfied.

The second guideline is whether the cost is beyond the direct control of management. The evidence persuasively shows that while MidAmerican as a MISO transmission-owning member can influence transmission costs, it does not directly control those costs. Formula rates are established by FERC for the MISO tariff.

Even if MidAmerican decided to exit MISO, it would have no control over the costs; the MISO tariff requires exiting members to pay for MVP projects that are approved by MISO prior to the member's exit. The second guideline has been met.

The third guideline is whether the costs are subject to an important change in level. The forecasts show that the TCA transmission costs will increase by about $50 million over the first three-year period the clause is in effect and then begin stabilizing in the 2019-2020 period. At least for this period of time, the guideline is satisfied.

The fourth guideline is whether the costs are an important factor in determining the total cost to serve. While the absolute dollar and percentage impact of the TCA costs is less for MidAmerican than for IPL (which sold its transmission system and is solely a transmission purchaser), the costs are significant enough to be a potential driver for a rate proceeding. In particular, the Schedule 26A costs will increase significantly, at least for the next few years. If the TCA is denied, MidAmerican states that the logical alternative would be a series of base rate cases, which have significant rate case expense that must be paid by ratepayers. Because of the significance of these costs as a rate case driver, the Board finds the fourth guideline satisfied.

The fifth and final guideline asks whether there are costs readily, precisely, and continuously segregated in the accounts of the utility. There was no dispute that the accounting for the proposed TCA will meet this guideline.

While the Board finds that the evidence persuasively shows that all five guidelines were met, the Board notes that it is not necessary for a proposed

adjustment clause to meet all five guidelines; the five criteria in the rules only apply to an EAC. Iowa Code § 476.6(8) grants the Board broad authority in implementing adjustment clauses, stating that "[t]his chapter does not prohibit a public utility from making provision for the automatic adjustment of rates and charges for public utility service provided that a schedule showing the automatic adjustment of rates and charges is first filed with the board." The Board has the authority to adopt the TCA regardless of whether it has met the guidelines contained in 199 IAC 20.9(1). Because of the Board's authority granted by the statute, granting an adjustment clause does not constitute piece-meal ratemaking, particularly when adopted in a general rate proceeding where all revenues and costs of the utility are examined.

In response to the argument that some revenues should flow through the TCA, MidAmerican pointed out that the transmission costs associated with serving native load that are part of MidAmerican's base rates include a $24.6 million credit for wholesale transmission revenues received from MISO Schedules 7, 8, and 9 as well as revenues from grandfathered transmission service and wholesale revenues related to the use of MidAmerican's distribution facilities. (Tr. 985) While there could be an incremental increase in revenue, that revenue could also decrease and inclusion of the amount in base rates guarantees customers that amount of benefit. Inclusion of incremental revenues in the clause appears to be inconsistent with the proposed rate design in this proceeding.

The Board finds the TCA in the settlement to be reasonable, with some modifications. First, MidAmerican asked the Board to include new MISO schedules

or tariffs in the TCA. The Board will not allow this to occur automatically. MidAmerican may propose changes to the TCA to reflect changes to the MISO tariff or tariff schedules, but any new types of charges cannot be flowed through the TCA until they are approved by the Board. The Board and other parties will have the opportunity to examine any new charges to see if they are consistent with those charges already included in the TCA.

Second, because it appears that TCA costs will level off within the next five or so years, the Board will sunset the TCA five years from the date compliance tariffs are approved (with a subsequent true-up), which will be sometime in 2019. MidAmerican may ask that the TCA be extended as the sunset approaches, provided MidAmerican provides evidence that the TCA still generally satisfies the five guidelines in rule 20.9(1).

Third, the Board will require monthly transmission reports similar to what IPL files in support of its transmission rider. The TCA is to be adjusted annually with no provision for a mid-year adjustment. In addition, MidAmerican will be required to file semi-annual reports in June and December of each year, beginning with June 2014, detailing MidAmerican's efforts to influence MISO transmission costs and policy to the benefit of MidAmerican's ratepayers.

With these modifications, the Board believes the TCA is beneficial to ratepayers by minimizing the chance that there will be repeated rate cases to recover transmission costs. The modifications to the Settlement will ensure that appropriate

costs are flowing through the TCA and that the TCA will be utilized only as long as it is appropriate.

1. Separate Jurisdiction

An ancillary issue to the TCA is MidAmerican's reference to the costs associated with MidAmerican's MVPs as being extraordinary projects with a "separate jurisdiction." (Tr. 952) As clarified at hearing, what MidAmerican means is that the TCA provides for separate accounting for regionally-based costs, like the MVPs, that are not primarily incurred to serve MidAmerican's retail load. (Tr. 1045) MidAmerican said its internal system of accounts will use identifiers for these facilities so that they can be tracked separately and recovered only through the TCA, not Iowa base rates. (Tr. 1045, 1046) MidAmerican noted that all costs associated with MidAmerican's use of all MVPs, including those owned by MidAmerican, will be assessed under Schedule 26-A of the MISO tariff. (Tr. 965)

Consumer Advocate said that MidAmerican's decision to segregate costs and revenues for separate jurisdiction (MVP) projects, rather than create a distinct legal entity for such projects, might better facilitate the ongoing review of transmission costs, the proper recognition and assignment of such costs to regional transmission projects, and MidAmerican's efforts to manage transmission costs. Consumer Advocate noted that the Board has the authority to monitor the efficacy of such arrangements and to order appropriate relief to assure that retail ratepayers are not subsidizing separate jurisdiction transmission projects, citing Iowa Code §§ 476.2(4) and 476.3 (2013).

IICAP opposed the TCA, but said that if there is to be a TCA and separate jurisdiction, then it should stay truly separate. IICAP argued that if MidAmerican wants to utilize a separate jurisdiction, then nothing should cross into or out of that jurisdiction from the Iowa regulated jurisdiction.

The use of the term "separate jurisdiction" was unfortunate because it created some needless confusion. As was clarified at hearing, all that is being proposed is an accounting treatment for MVPs. Nothing is being proposed that would alter the state and federal jurisdictional boundaries over MidAmerican's electric service.

As part of the overall Settlement, the "separate jurisdiction" will be approved, but with modification or clarification. First, it is the Board's understanding that the "separate jurisdiction" may not be used to develop projects outside of MidAmerican's traditional regulated-utility footprint, nor should anything from the Iowa regulated jurisdiction cross into or out of the separate accounting jurisdiction as set forth in the Settlement. This language is not designed to prevent MidAmerican from recovering its MVP costs from its native load customers through the TCA but is designed to prevent, among other things, any problematic accounting entries that go back and forth between jurisdictions. Second, MidAmerican will be required to make an annual filing, with the first filing due in April 2015, detailing what has and has not been included in the "separate jurisdiction" for each month in the preceding year.

VI. REVENUE SHARING

MidAmerican has operated under some form of revenue sharing since 1998. As part of the proposed Settlement, customers would receive 80 percent of any sums above the overall weighted ROE of 11 percent. MidAmerican argued that revenue sharing has contributed to stable rates because of its significant contribution to rate base reductions. (Tr. 72, 481)

Consumer Advocate said that as part of the proposed Settlement, it agreed with MidAmerican that revenue sharing would begin above an 11 percent threshold where the customers would receive 80 percent of these earnings. Consumer Advocate clarified that the earnings would include revenue earned on all Iowa jurisdictional electric operating income, such as the Iowa jurisdictional portion of wholesale sales revenue (generation and transmission) and related costs. Under the proposed Settlement, Consumer Advocate said that the customers' share of the earnings would be used to reduce the regulatory asset created by the depreciation deferral referenced in Article VII of the Settlement. If that regulatory asset is reduced to zero, Consumer Advocate stated, the earnings would then be used to reduce the investment in Walter Scott, Jr. Unit 4, a coal-fired electric generating facility.

Consumer Advocate pointed out that the reduction in future rate base amounts ultimately reduces future rate increases and that since revenue sharing was initiated, MidAmerican's Iowa electric plant investment has been reduced by more than $335 million. (Tr. 481) Consumer Advocate noted that because the revenue sharing derives largely from MidAmerican's earnings from the wholesale marketplace, current

customers' rates are not subsidizing future customers' rates, meaning there is no intergenerational inequity. (Tr. 113, 508) Consumer Advocate argued that the 80/20 revenue sharing split was reasonable given the increased risk to customers with the inclusion of two adjustment clauses in the proposed Settlement, the EAC and TCA. (Tr. 1733)

Deere noted that the revenue sharing proposed here is different than prior years because the two automatic cost recovery mechanisms will allow MidAmerican to flow higher energy and transmission charges to customers. Deere argued that in a period of increasing costs, MidAmerican's revenue sharing mechanism might no longer be appropriate. Deere said there are no real benefits to customers from revenue sharing since the funds will be used to reduce a regulatory asset and not to reduce customers' rates. (Tr. 673-675)

Deere also pointed out that MidAmerican is not projecting any revenue sharing until after 2016. Therefore, Deere said that customers will pay higher base rates over that period while at the same time being exposed to higher costs through the EAC and TCA. (Tr. 675)

Deere proposed an alternative to the revenue sharing clause in the proposed Settlement. Under Deere's alternative, the ROE would be based on the overall weighted average ROE the Board approves in this rate case, with MidAmerican absorbing or keeping any earnings within the deadband of 100 basis points above or below the authorized ROE. Of the earnings above the 100 basis point band, Deere would have customers keep 75 percent of them. If MidAmerican earnings fall below

the floor, under Deere's proposal MidAmerican could use its accumulated depreciation reserve of $673 million to lower its depreciation expense to increase its earned regulatory returns to the floor. (Tr. 675-676, 743)

Deere said that its approach balances the interests of both MidAmerican and its customers. Deere noted that MidAmerican has a remedy when it is under-earning and customers receive immediate benefits because over-earnings would be used to lower rates, while the deadband creates incentives for MidAmerican to manage its operations. Additionally, Deere proposed that wholesale revenues and costs be moved to the EAC. (Tr. 677)

NIE pointed out that while an 80/20 revenue sharing split appears favorable to customers, the proposal is unreasonable because the two adjustment clauses will increase costs paid by customers and wholesale margins are excluded from the EAC. NIE said customers should receive wholesale margins directly through the EAC or through the revenue sharing mechanism as direct refunds, otherwise the revenue sharing plan could create intergenerational inequity.

IICAP also urged that wholesale margins be flowed through the EAC directly to customers, whereby customers would receive 100 percent of the benefits, not just 80 percent. IICAP said it did not oppose a revenue sharing for other excess earnings and could support either the Settlement mechanism or its own mechanism where the percentage structure benefits the customer first with no deadband and a cap with a maximum level above the authorized ROE to prevent MidAmerican from overearning.

The revenue sharing mechanism contained in the proposed Settlement greatly improves on MidAmerican's original proposal, wherein MidAmerican would have received 50 to 75 percent of the revenues until its earnings were two percent above the threshold; at that point, MidAmerican would still have retained 25 percent of the revenue sharing. The 11 percent revenue sharing threshold in the proposed Settlement reflects the weighted average ROE of the pre-established ROEs determined in the advance ratemaking principle cases and a 10 percent ROE for the remaining portion of rate base. Of the excess earnings above the threshold, 80 percent will go to the customer in the form of future rate base reductions, similar to how revenue sharing has been used in recent years.

The record shows the past revenue sharing has reduced rate base by over $335 million, a significant benefit to customers. No one opposes some form of revenue sharing; the primary opposition is to excluding wholesale margins from the EAC and including them in the revenue sharing calculation.

The Board believes that treating wholesale margins through the revenue sharing mechanism is reasonable, especially when factored in with other Settlement benefits. By using revenue sharing proceeds to offset deferred deprecation, future rate increases will be mitigated and base rates will remain more stable. However, the proposal is asymmetrical in that MidAmerican is protected from the downside risk if its earnings fall below 10 percent by having the option to file a rate proceeding. Customers are not protected in that their revenue sharing portion never exceeds 80 percent, no matter how high a level MidAmerican's earnings reach. If MidAmerican is

protected from the downside, customers should benefit from the upside. The Board will modify the Settlement to offer this protection—ratepayers are to receive 100 percent of the revenue sharing benefits if MidAmerican's earnings are above 14 percent, as calculated pursuant to the Settlement.

VII. CLASS COST-OF-SERVICE AND RATE DESIGN

A. Cost Allocation

1. Introduction

Article XII of the proposed Settlement addresses allocation of the revenue requirement:

> For settlement purposes, the Parties agree that the revenue requirement shall be allocated to customer classes as follows as described on lines 111-126 of the revised rebuttal testimony of Company witness Rea:
>
> • Generation costs: The Company's original Hourly Costing Model proposal will be modified to clearly delineate that retail fuel costs are captured through the energy component of the Hourly Costing Model and assigned to each hour of the year based on MISO LMP prices, and non-fuel costs are captured through the capacity component of the Hourly Costing Model.
>
> • Transmission costs: Transmission costs shall be allocated based upon a 12 coincident peak (CP) allocator.
>
> • Distribution wires costs: Distribution costs shall be allocated based upon a hybrid approach using a single system allocation, without any allocation of single-phase costs to the LGS and VLGS rate customers.
>
> • Miscellaneous distribution costs: Costs for transformers, services, metering, and customer service

> costs shall be allocated based on the OCA's recommendations as outlined in the direct testimony of OCA witness Marcus at page 35, line 1 through page 41, line 10.

As directed by the Board, MidAmerican filed multiple cost-of-service (COS) models in this case. For each COS model, MidAmerican also provided a set of proposed rates. Generation costs account for two-thirds of MidAmerican's annual revenue requirement so most of the cost allocation testimony focused on generation plant allocation. MidAmerican and Consumer Advocate agreed in the Settlement that an Hourly Cost Model (HCM) would be used to allocate generation costs. Several intervenors disagreed and urged the Board to adopt the average and excess (A&E) method to allocate generation costs.

The HCM method allocates or distributes generation fixed costs over all hours of the year using hourly load data from each customer class. In contrast, the A&E method allocates generation fixed costs using two measurements from each customer class; average demand and excess demand. MidAmerican said that one driver for the development of the HCM is that MidAmerican believes that cost allocation based on A&E is no longer reasonable because of the high levels of wind generation in the MidAmerican system. If the Board adopts the A&E method for cost allocation of generation assets, MidAmerican and Consumer Advocate urge the Board to make a modification to the traditional A&E method such that wind-related costs would be allocated using average demand in a manner similar to variable energy costs. Those opposed to the HCM method argue that all generation costs

should be allocated in the same manner via the A&E method and that there should not be a modification to the A&E method for wind-related costs.

There was also disagreement about the allocation of transmission costs. MidAmerican and Consumer Advocate urged adoption of the 12-coincident peak (12 CP) method for transmission cost allocation. With this method, each customer class's share of monthly coincident peaks is used to allocate transmission costs. Others urged the Board to use the A&E method to allocate transmission costs. The primary difference in the two methods is that the A&E method focuses on peak demand measured at one point in time during the year while the 12 CP method uses peak demand from each month of the year.

Distribution wires costs are allocated by the Settlement according to a hybrid system that separates customers by voltage level of service and whether customers take single-phase or three-phase service. Miscellaneous distribution costs (transformers, services, metering, and customer service costs) are to be allocated according to standard practices; the proposed Settlement incorporates all of the suggestions made by Consumer Advocate in prefiled testimony prior to the Settlement. While Walmart objected to the initial distribution allocation proposed by MidAmerican, no party has raised specific objections to the allocation methods for distribution wire costs or miscellaneous distribution costs contained in the Settlement. Those allocations are reasonable and will be approved. The Board will now separately address the allocation of generation costs and transmission costs.

2. Generation Costs

a. Parties' Initial Positions

MidAmerican said that since its last rate case there have been several changes that required MidAmerican to reevaluate certain cost of service issues. MidAmerican cited three major changes—the addition of a significant amount of wind generation to its electric system, data availability that allowed for a more detailed analysis of each customer class, and MidAmerican's membership in MISO as a transmission owner.

MidAmerican said the changes since its last case caused it to create a new method for the allocation of generation assets, the HCM. MidAmerican stated that the HCM allocates capacity and fuel costs to customer classes based on their hourly loads throughout the test year, with the result that customer classes with high loads during peak hours are allocated more costs.

MidAmerican argued that the HCM is an appropriate method for cost allocation because it accurately tracks cost causation, is logically sound, and provides a reasonable outcome. MidAmerican said that use of the A&E method would decrease rates for large industrial customers while increasing residential rates by nearly thirty percent. MidAmerican maintained that high load factor customers (i.e. industrial customers) want the Board to ignore the fact that the HCM method is based on the simple and reasonable premise that all customers who consume energy in the same hour, regardless of class, should pay the same rate for such energy.

MidAmerican maintained that because the A&E method allocates all fixed costs as demand related and all variable costs as energy related, the A&E method does not properly allocate wind generation costs. Wind generation is not built to serve peak demand and should be not be treated as such. MidAmerican said that the industrial intervenors supporting the A&E method gloss over this fact and propose that wind generation be treated as if it is totally demand related, when in fact only about 15 percent of the nameplate capacity associated with wind generation goes towards meeting peak demand.

Based on the load characteristics of MidAmerican's system, MidAmerican argued that there are several reasons supporting the HCM as a better method than the A&E method for generation cost allocation:

First, MidAmerican said that the HCM allocates costs based on a broad analysis of customer loads which takes into account both peak and off-peak periods, as compared to the highly simplistic A&E method which relies only on average and peak loads.

Second, MidAmerican stated that the HCM method allocates costs according to how customer classes use the assets over the course of the year, as opposed to allocating costs based only on peak conditions.

Third, MidAmerican argued that the HCM method captures the spirit of 199 IAC 20.10"c," which calls for the recognition that generation is built to serve both peak and off-peak demand.

Fourth, MidAmerican maintained that the HCM method is both a cost allocation model and pricing model, which provides consistency between cost allocation and pricing. MidAmerican pointed out that the HCM method also eliminates the need for additional analysis required when employing the A&E method.

Fifth, MidAmerican said that the HCM method provides greater rate stability over time than the A&E method, as shown by the evidence in this proceeding.

MidAmerican said that the HCM method uses hourly MISO locational marginal prices (LMPs) with hourly customer load to determine how energy costs should be allocated between customer classes. While the absolute values of LMPs change from year to year, MidAmerican pointed out that the relationship between load and LMP does not change significantly from year to year, meaning the HCM method results are more stable than A&E method results because the A&E method relies on customer peak demands.

Consumer Advocate said that the HCM approach in the Settlement was developed to better deal with the amount of wind generation on MidAmerican's system and the fact that MidAmerican is a participant in a regional transmission organization. Consumer Advocate noted that MidAmerican modified the original version of the HCM in order to address criticisms from the industrial customers regarding potential double counting of some fixed costs. Consumer Advocate said that the modification resulted in a decrease of $7.6 million allocated to the industrial customers as compared to the original HCM approach proposed by MidAmerican.

Consumer Advocate argued that locational marginal prices in MISO are the true marginal costs for MidAmerican to serve retail load in its territory, justifying the use of LMPs in order to allocate fuel costs. Consumer Advocate noted that the HCM method is the same type of approach used to set the "standard offer service" rates in deregulated, retail access states.

Consumer Advocate maintained that it is appropriate to assign generation costs to users based on their actual use of generating capacity and the HCM spreads generator costs across the year based on the number of hours each unit of capacity is actually used. Consumer Advocate noted that this spreading of generation costs reflects the fact that baseload generation is built to reliably serve load all hours of the year and peaker capacity is built to serve peak demand. Consumer Advocate pointed out that baseload generation has higher capital costs and low fuel costs while peaker plants have lower capital costs and cost more to run, meaning that it is more economical to meet year-round load with baseload plants and reserve the peakers to only a portion of the year when they are needed to meet peak demand.

Consumer Advocate said that the industrial intervenors neglect the fact that baseload plants are built to supply large amounts of cost-effective energy all hours of the year. If capacity were built only to meet peak demand, Consumer Advocate stated that then all plants would be peaker plants and the capital costs would be lower. However, because this is not the case, Consumer Advocate maintained that cost allocation should take into account the annual load pattern of customer classes.

Consumer Advocate argued that the industrial intervenors also refused to recognize the unique characteristics of wind generation. Consumer Advocate said that the high percentage of wind energy on MidAmerican's system justified a reexamination of the A&E method for allocating generation costs. Consumer Advocate noted that witnesses for Deere and IICAP argue that wind generation costs should be allocated in the same manner as other generation costs with the A&E method. However, Consumer Advocate concluded that this allocation would not reflect the realities of wind generation because the A&E method assumes incorrectly that wind is built to meet peak demand.

Consumer Advocate said its witness tested the HCM method of generation cost allocation for reasonableness by comparing the results with several alternative cost allocation methods, and found that the residential customer class allocator resulting from the HCM method was within the range of residential allocators produced with the alternative methods. Consumer Advocate said that its witness also found, however, that the A&E method produced a residential allocator much higher than the range of allocators resulting from the alternative methods. In addition, Consumer Advocate said that its witness found that the HCM method produces results that resemble the test year rates more closely than the A&E method.

IICAP pointed out that the Board has consistently relied on the A&E method for generation cost allocation for thirty years. Most recently, IICAP said the Board rejected the use of the average and peak demand method proposed by Consumer

Advocate in a 2010 IPL rate case (Docket RPU-2010-0001). Given all the changes in the MidAmerican rate proposal, IICAP argued that this is not the time for the Board to experiment with a new, untested method for cost allocation, and IICAP said the Board has recognized that where other changes in rate design or zonal equalization are occurring, it may not be appropriate to simultaneously revise class cost allocations. IICAP quoted from an IPL case:

> With all the rate changes in this case, it does not make sense to impose changes from class cost allocation, particularly when IPL will be redefining customer classes and consolidating class rate structures. The best time for a new class cost-of-service study is after the classes are redefined and class rate structure targets have been established. Interstate Power and Light Company, "Final Decision and Order," Docket No. RPU-04-1 (1/14/2005), p. 18.

IICAP pointed out that MidAmerican witness Rea admitted in cross examination that rates for high load factor customers would be approximately one-third higher under the HCM method than under the A&E method of cost allocation. IICAP said that the HCM method neglects traditional cost causation principles which acknowledge that load peaks drive incremental generation investment. Under the HCM method, IICAP noted that high load factor customers are allocated more costs during hours when low load factor peaks occur, thereby ignoring which customer class caused the peak.

IICAP argued that use of the HCM method for allocating generation costs would be bad public policy from an economic development perspective and also contrary to the Board's rules because there is a disconnect between the inputs to the

HCM method and the costs that are allocated. IICAP contended that reliance on an external input, such as the MISO LMPs, allows costs of entirely separate utilities to unduly influence decisions about allocation of MidAmerican's revenue requirement.

IICAP maintained that the only real policy argument from MidAmerican on why the Board should adopt a different cost allocation model is the claim that the A&E method fails to properly address wind generation. However, IICAP said that the alleged need to find a cost allocation method that better accounts for wind was not even considered by MidAmerican until after this case was filed and that MidAmerican never raised this issue in its numerous wind-related advanced ratemaking principles proceedings. IICAP said that a generation portfolio should be balanced with a variety of generation resources and that if the amount of wind in MidAmerican's portfolio is beginning to cause existing rules to be perceived by MidAmerican as a poor fit, that likely says less about the well-tested rules and more about whether the amount of wind in MidAmerican's portfolio is getting out of balance.

IICAP said that the A&E method has long been used to allocate costs of different generation resources with different fixed to variable cost ratios, including sources such as hydro power, which is similar to wind in that the fuel is essentially cost-free. IICAP noted that at various times, utilities have relied more on certain generation resources, but that these changes did not require a new cost allocation model and there is no compelling evidence in this docket to support a change. IICAP stated that the Board has found that the A&E method complies with 199 IAC

20.10"c," and neither MidAmerican nor Consumer Advocate has shown sufficient evidence that the HCM method is a better allocation method.

Walmart argued that there are numerous flaws with MidAmerican's HCM method. First, Walmart noted that Board rules expressly provide that generation allocation should be focused primarily on class demand and, contrary to the rule, the HCM method focuses heavily on energy usage. Second, Walmart said that the use of MISO LMP prices as a surrogate for energy usage is problematic because they are not an accurate substitute for MidAmerican's actual energy prices. Walmart pointed out that in a 2010 IPL rate case, the Board ruled that MISO LMP's do not solely represent energy costs but may also include capacity costs. Walmart said the difference in 2012 in using marginal cost or embedded cost of energy is significant; IICAP witness Brubaker demonstrated that the marginal cost was $22 per MWh while the average embedded cost was $10 per MWh.

Walmart proposed that regardless of the Board's decision on the use of the HCM method to allocate generation costs, class rate design should continue to be based on the A&E approach. Walmart argued that demand charges for the commercial and industrial classes should continue to reflect the fixed costs based on the A&E methodology with the energy charges only recovering variable costs, as recommended by IICAP.

Under the HCM methodology, Walmart said that 11 percent of MidAmerican's total cost-of-service is classified as capacity-related and 89 percent is classified as energy-related. Walmart noted that the practical effect of using the HCM method

for rate design is to severely punish high load factor customers that are using the MidAmerican system efficiently. In contrast, Walmart said that the A&E methodology classifies approximately 45 percent of costs as capacity related and provides proper price signals to customers.

Deere argued that the HCM method proposed by MidAmerican for generation cost allocation did not accurately reflect cost causation for MidAmerican because the HCM method fails to recognize the important role that summer peak demands play in determining MidAmerican's capacity needs. Deere said that the HCM method is also a dramatic departure from the traditional A&E cost allocation method the Board has consistently approved in rate cases over the past three decades.

Deere urged the Board to continue using the A&E method for generation cost allocation and the Four Coincident Peak (4CP) method to calculate excess demand. Deere said that use of the 4CP method to calculate excess demand addresses concerns expressed by MidAmerican about the potential instability of the traditional A&E method and that the A&E method does not properly consider time or use among customer classes. Deere noted that the 4CP method allocates less cost to customer classes that have higher demand when the system is not peaking.

Deere maintained that the HCM method proposed by MidAmerican produces cost allocation factors that closely resemble energy based allocators, which is inconsistent with the Board's rules for the allocation of generation costs in 199 IAC 20.10(2); this rule provides that generation costs should be based on peak and off-peak demand. Deere claimed that MidAmerican has not demonstrated that the HCM

method is consistent with cost-causation or that the HCM method recognizes the importance of MidAmerican's summer peak demand. Deere pointed out that in a 2002 IPL rate case, Docket Nos. RPU-02-2, RPU-02-8, and ARU-02-1, MidAmerican proposed an hourly production cost allocation method that was rejected by the Board, with the Board saying:

> MidAmerican's proposed modifications to IPL's method would also more closely resemble energy-based allocations. (Tr. 3098). Allocations of demand-related generation costs that more closely resemble energy-based cost allocations may be inappropriate because not enough weight is given to peak demand. Interstate Power and Light Company, Docket Nos. RPU-02-2, RPU-02-8, and ARU-02-1, "Final Decision and Order," p. 66, 4/15/2003.

Deere said that one of MidAmerican's arguments is that the A&E method benefits customers with high load factors. However, Deere said this assertion was shown not to be true in the direct testimony of Deere witness Pollock, who provided analysis showing that the A&E method allocated more costs to the low load factor residential class as well as the high load factor very large general service class. Deere said Mr. Pollock's results demonstrated that load factor is not an indicator of whether a class benefits from the use of the A&E method versus the HCM method.

Deere pointed out that MidAmerican contends that the A&E method is exclusively a cost allocation methodology and offers no guidance with respect to pricing issues. Deere argued that this is not a valid concern because utilities have used the A&E method for decades and have been able to develop seasonal or time-of-use rates.

Deere also pointed out that MidAmerican claims that the A&E method does not properly allocate costs associated with wind generation, but MidAmerican ignores the fact that the A&E method is being applied to all generation uniformly, not just wind. While MidAmerican urges that wind investments be allocated on an energy basis due to the limited capacity value of wind, Deere argued that one could make an equally compelling argument that all load-following costs should be allocated according to summer peak demand since that is when it is needed most for reliability. Deere said that the Board has consistently balanced these competing concerns by adopting the A&E method for all generating resources. Deere noted that In IPL's 2010 rate case the Board ruled against allocating wind and other fixed costs on an energy basis and stated:

> The fact that generation capacity investment decisions involve tradeoffs of capacity versus energy costs does not change the fact that once the capacity investment is made, the capacity costs and energy costs are recovered separately. Interstate Power and Light Company, Docket No. RPU-210-0001, "Final Decision and Order," p. 117, 1/10/2010.

Deere urged that costs associated with wind assets should be allocated in the same manner as all other costs.

Deere said that MidAmerican claims that if the A&E method is adopted by the Board then 73 percent of its generation costs would be allocated on the basis of average demand rather than a percentage that accurately reflects MidAmerican's system load factor of 57 percent, but Deere argued that MidAmerican came to this incorrect conclusion by assuming that all of the energy usage has a 100 percent load

factor. Deere said its witness correctly determined that 52 percent of MidAmerican's plant costs are used to serve the minimum load over the entire test year, which is close to the system load factor of 57 percent that the A&E method allocates on an energy basis.

NIE urged the Board to reject MidAmerican's proposal to use the HCM method for generation cost allocation and argued that this is not the time to try an untested class cost of service methodology. NIE also cited the 2010 IPL rate case as support for not departing from the A&E method.

b. Parties' Reply Positions

MidAmerican stated that the industrial intervenors attack the HCM method as an untested method that would be a dramatic departure from the A&E method the Board has adopted for the past thirty years. However, MidAmerican said that the Board is not bound by precedent on a COS methodology and if it were, the effect would be to lock into a single COS method without regard to the facts and circumstances of a particular utility and how those facts and circumstances can change over time.

MidAmerican argued that while the HCM method is new, it is not untested, pointing out that the HCM version contained in the Settlement contains some modifications from MidAmerican's original proposal to deal with concerns raised by the various industrial intervenors. Despite these changes, MidAmerican said that the industrial interveners continue to argue against the original HCM proposal instead of the Settlement HCM. In addition, MidAmerican pointed out that it offered tests of the

results of the HCM method in this case for reasonableness and consistency and that these test results show that the HCM method in the Settlement is superior to the proposals offered by IICAP and Deere.

MidAmerican noted that the primary difference between the HCM method and A&E method is the manner in which capacity costs are allocated. MidAmerican pointed out that the A&E methods allocate capacity costs based on either a single measurement of customer class peak demand or four peak demand hours while the HCM method in the Settlement uses demand for all hours of the year to allocate capacity costs based on customer demand that occurs when capacity is actually used.

Since 2001, MidAmerican noted that it has added over 2,200 MW of wind generation and is expecting to add another 1,050 MW of wind generation over the next two years, which is significant because the A&E method treats all generation, including wind, as capacity resources. However, MidAmerican argued that wind is in fact an energy resource with limited capacity value because wind does not have the same ability to meet peak demand as other dispatchable resources.

MidAmerican said that the effect of treating wind as a capacity resource is that it shifts the capital costs of wind to residential customers while industrial customers receive disproportionate energy benefits from wind (which has no fuel costs). MidAmerican pointed out that the various industrial intervenors ignore the fact that this is the first time the Board has considered a rate case for a utility with substantial

amounts of wind. In this situation, MidAmerican claimed that both the A&E method and HCM method are untested models.

MidAmerican said that the industrial intervenors' view of the HCM method is based on their self-interest and they present the HCM method as penalizing industrial customers because it assigns more costs to high load factor customers than the A&E method. MidAmerican noted that in the view of the industrial intervenors, all non-fuel costs should be based primarily on peak demand, which is why the industrial intervenors oppose the HCM method.

MidAmerican pointed out that non-fuel costs allocated on a demand basis in the A&E method include not just the entire cost of the dispatchable generating assets, but also the costs to keep the plants in operation throughout the year, maintenance costs resulting from use throughout the year, and costs associated with wind which is largely unavailable during peak load conditions. MidAmerican said that the results of the A&E methods presented in this case would be to increase residential rates by 30 percent while reducing very large general service rates by 7 to 11 percent, exacerbating class rate disparities because currently MidAmerican’s industrial rates are less than half of its residential rates. MidAmerican urged the Board to consider all customers when setting rates, not just large energy users.

MidAmerican said that the industrial intervenors argue that because the HCM method spreads capacity costs over all hours of the year, it is an energy allocator and does not conform with IAC 199 20.10(2)"c." MidAmerican pointed out that the HCM method uses hourly demand data which will inevitably make it more like an energy

allocator than the A&E method, which relies on single class peak demand.

However, MidAmerican argued that the HCM method is not an energy allocator and that the method explicitly and directly takes into account both peak and off-peak demands. MidAmerican said inherent in the modified HCM method in the Settlement is the recognition that capacity and energy prices vary by time of use, and the price reflects the increase in the load during on-peak periods and the decrease in the load in off-peak periods. MidAmerican concluded that the HCM method meets all the requirements of IAC 199 20.10(2)"c" in that it uses both peak and off-peak demand to determine cost allocation.

MidAmerican noted that the industrial intervenors also claim that the HCM method should be rejected because it is based on MISO LMPs which are not embedded costs. However, MidAmerican argued that the Board's rules are not clear in this respect, specifically citing 199 IAC 20.10(2):

> The design of rates should reasonably approximate a pricing methodology for any individual utility that would reflect the price system that would exist in a competitive market environment. For purposes of determining revenue requirements among customer classes, embedded costs shall be preferred. For purposes of determining rate designs within customer classes, long-run marginal cost approaches are preferred, although embedded cost approaches may be considered reasonable.

Because MidAmerican is subject to charges from MISO for energy to supply its retail load, MidAmerican argued that it would be reasonable to view the MISO LMPs as an embedded cost to MidAmerican. Also, MidAmerican pointed out that the rule states

that embedded costs are preferred and not required so there can clearly be no violation of the rule if the HCM method is adopted.

MidAmerican also noted that Deere argues that the HCM method does not resemble what a retail customer would pay in a competitive energy market, but Deere does not explain how pricing from an A&E method would better reflect competitive market pricing than MISO LMPs. In reality, MidAmerican said that the MISO market reflects the competitive market place where MidAmerican purchases energy for its load and bids its generation for sale.

Consumer Advocate said that the modified HCM method proposed in the Settlement is fair to all customers. While the industrial intervenors argue that the HCM method should be rejected because it is new, produces results that deviate from the A&E method, and penalizes high load factor customers, Consumer Advocate pointed out that the results from the HCM method reflect the fact that high load factor customers are cheaper to serve. Consumer Advocate said that average customer class rates resulting from the use of the HCM method contained in the Settlement are: residential—9.5¢/kWh; commercial—6.98¢/kWh; industrial—5.31¢/kWh; and large industrial—4.39¢/kWh.

Under the Settlement, Consumer Advocate stated that residential customers pay about 116 percent more than the large industrial customers and 79 percent more than the small industrial customers. During the test year, Consumer Advocate noted that residential customers paid 121 percent more than large industrial customers and 94 percent more than small industrial customers. Consumer Advocate contrasted

these results to the A&E methods supported by the intervenors, which would produce rates where residential customers would pay 210 to 220 percent more than the large industrial customers and 134 to 141 percent more than the small industrial customers. Far from being fair, Consumer Advocate argued that the industrial intervenors favor the industrial classes at the expense of other classes.

Consumer Advocate maintained that the A&E method is out of date and not suitable for the high levels of wind generation found in MidAmerican's system. During the test year, Consumer Advocate said that 29 percent of MidAmerican's energy was generated from wind, which is a percentage of wind not contemplated when the A&E method was developed. Unlike other types of generation which are built and dispatched to meet peak demand, Consumer Advocate pointed out that wind is not built and cannot be dispatched to meet peak demand, but rather is built to provide low-cost energy throughout the year and provide environmental benefits to all customer classes. During the test year, Consumer Advocate stated the cost per kWh of wind energy was 0.4 cents, which is in stark contrast to the 2.1 cents per kilowatt hour for baseload generation and 6.2 cents per kilowatt hour for load following generation.

Consumer Advocate argued that the A&E method would force the non-industrial customer classes, such as residential and commercial customers, to pay for the bulk of MidAmerican's wind generation capital costs (based on demands during peak summer periods) while giving the customers in the industrial classes (who consume enormous amounts of energy throughout the year) the benefit of the zero

fuel cost energy produced by the wind generation. Consumer Advocate said that the industrial customers would get the benefits of low cost energy without paying the associated fixed costs that make the low cost energy possible.

Consumer Advocate said the fact that the Board has consistently adopted the A&E method over the past three decades does not support its use in this case. Consumer Advocate pointed out that no case using the A&E method cited by the intervenors involved a utility with large amounts of wind generation, like MidAmerican.

Consumer Advocate said that the industrial intervenors cite 199 IAC 20.10(2)"c" to argue that generation costs should be allocated based on demand and not energy, but that this argument is at odds with the rule's language. Consumer Advocate noted that the rule provides that generating capacity allocations "shall recognize that utility systems are designed to serve both peak and off-peak demand, and shall attribute costs based upon both peak period demand and the contribution of off-peak period demand in determining generation mix." Consumer Advocate said that the A&E method allocates costs almost entirely by peak demand and gives very little recognition to customer demands and usage during the remainder of the year; while technically the A&E formula includes an average demand component, mathematically the results are extremely close to a peak demand method.

Consumer Advocate concluded that use of the A&E methods proposed by the industrial intervenors would result in rates that are unreasonable and not cost-based. Consumer Advocate also said use of the A&E method would result in rates that

cause MidAmerican's Iowa rates to be outliers when compared with the utility rates across the country. Consumer Advocate pointed out that cost-based rates from the proposed HCM method would result in MidAmerican's customers having some of the lowest commercial and industrial rates in the country.

IICAP said that MidAmerican likes to point out that its customers have enjoyed rate stability and that it has been part of a positive business climate in Iowa, but all of this has taken place under a regulatory framework where the Board has relied on the A&E method. IICAP said that for no particular reason, MidAmerican and Consumer Advocate want to disrupt this stability by offering smaller rate increases for low load factor customers at the expense of high load factor customers. IICAP said that MidAmerican and Consumer Advocate want to use an entirely made-up allocation model that does not rely on embedded costs, which are preferred in the Board's rule on generation cost allocation.

IICAP said that the biggest problem with the HCM method is that it entirely ignores MidAmerican's embedded costs and the causation of those costs, allocating costs based on MISO LMPs and a hypothetical peaker, neither of which directly reflects MidAmerican's actual costs to produce electricity. IICAP also said the HCM method does not account for which customer class causes costs during any particular period, using the example that when demand from a "peaky" customer class spikes, industrial customers pay higher prices even though their load did not change. Under the HCM method, IICAP said that costs are not allocated based on causation, but on the fact of usage and that this defies any concept of cost causation

and penalizes efficient, non-“peaky” customers for the characteristics of less efficient customers.

IICAP said that Consumer Advocate's support of the HCM method appears to be based on the distinction between "baseload" and "peaking" plants and the differing fixed costs, variable costs, and usage by various customers of such plants. IICAP argued that this distinction is inexact and arbitrary, pointing out that MidAmerican's Greater Des Moines Energy Center (a combined-cycle gas plant) is not a good fit for either a baseload or peaker plant. Also, IICAP said that individual customer classes do not use only a particular generating plant and that MidAmerican has a portfolio of native generation which can be supplemented by purchases through MISO, which collectively serves MidAmerican's entire territorial load. Finally, IICAP noted that neither the HCM method nor the A&E method treats different types of generation differently.

IICAP said that Consumer Advocate seems to believe that high load factor customers should pay more fixed costs for the baseload generation since these customers benefit from the lower variable costs from baseload generation. However, IICAP said the facts do not support this and a simple analysis by IICAP witness Brubaker showed that industrial intervenors pay 30 percent higher fixed costs under the HCM method as compared to A&E method and 7 percent lower variable costs under the HCM method. IICAP argued that Mr. Brubaker showed that the 7 percent decrease in variable costs does not even come close to compensating industrial customers for the 30 percent increase in fixed costs.

IICAP argued that MidAmerican's comparison of revenue requirements with the various cost of service proposals only considers changes in base rates while neglecting the EAC and TCA. IICAP pointed out that MidAmerican's own projections show the EAC increasing significantly over the next nine years.

IICAP concluded that MidAmerican's claim that the A&E method does not work well with wind generation is not a valid reason to use the HCM method. IICAP said the Board considered this issue three years ago and determined that the A&E method was preferable to a more energy-based allocator. If the Board has concerns with the treatment of wind in this case, IICAP said the Board could use one of the modified A&E methods rather than risk a totally new method like the HCM method.

Walmart said MidAmerican's current proceeding is similar to the IPL rate case of 2010 and that MidAmerican and the Consumer Advocate are supporting a cost allocation method that closely resembles an energy allocator. While MidAmerican claims that its large amount of wind energy justifies using a new method for cost allocation, Walmart noted that the Board stated in the 2010 IPL decision (RPU-2010-0001) that the development of wind energy does not justify a change in the method for the allocation of generation capacity.

Walmart said that the HCM method relies on MISO LMPs for cost allocation. Given that LMPs are marginal costs, Walmart said that this method is contrary to the Board's rule that embedded costs be used. Walmart noted that MidAmerican witness Rea testified that utilities in deregulated states use LMPs to develop rates, but that practices in deregulated states have nothing to do with Iowa. Walmart also said that

the difference between LMPs and embedded costs is significant and shows that MidAmerican's HCM method overinflates the importance of energy.

Walmart argued that the complexity of the HCM method is another disadvantage and even MidAmerican stated that one of the drawbacks of the HCM is that it is "very data-intensive." In the 2010 IPL case, Walmart said that the Board determined that a method for energy cost allocation (the energy cost weighted allocator (ECWA)) based on LMPs did not "justify the additional resources required, both in terms of IPL's implementation costs and the Board's and Consumer Advocate's costs for regulatory review."

Walmart said that the HCM method is a pricing model, which is different than a cost tracking model. Walmart noted that the A&E method determines costs, which are then used to determine prices, but the paradigm is reversed with the HCM method in which costs follow prices.

Walmart argued that MidAmerican has not been able to show that the HCM method is logically sound. During the hearing, Walmart said that IICAP's exhibit 225 showed a hypothetical week in which the residential load fluctuated greatly with temperature while the industrial load remained relatively stable and that during times when the residential load spiked, prices increased for both the residential and industrial customers. Walmart maintained that this result is neither fair nor logical because the industrial customers did not cause the need for more generation, but are still charged for it.

Walmart concluded that the HCM method does not produce reasonable results. When compared with several other well recognized cost allocation methods, Walmart maintained the HCM method's results are remarkably different. Walmart pointed out that IICAP witness Brubaker compared the HCM method with three different versions of the A&E method and found that all produced results similar to each other and different from the HCM method.

Deere argued that the fact that MidAmerican has a lot of wind generation is no reason to depart from the A&E method because all generation is used to serve all load as an integrated system and there is no way to separate which generators serve specific customers. Deere said that utilities build generation to meet immediate and long term needs and that the A&E method appropriately does not allocate costs on the basis of specific kinds of generation, but instead allocates all resources in the same way. Deere noted that this is supported by Board precedent from the IPL rate case decisions in 2003 and 2011.

Deere maintained that MidAmerican's support for the HCM method focuses on the results produced by the HCM method rather than cost causation principles. Deere said that according to MidAmerican, the litmus test of a cost allocation method's validity is whether the resulting prices are reasonable:

> MidAmerican recognizes that there is no single set of cost of service methodologies that is perfect. Having said that, a cost of service methodology whose results do not yield reasonable rates for customers is not an appropriate cost of service methodology, regardless of whether it has been used in the past or has been approved in prior proceedings. (Tr. 1143)

Deere argued that MidAmerican designed the HCM method to achieve certain average per kWh revenue ratios between residential, commercial, and industrial classes that are in line with the ratios from other utilities. Deere said that the problem with this type of analysis is that the utilities used in the comparison have different rate setting policies, service characteristics, and usage characteristics and that this type of analysis has nothing to do with an appropriate class COS study.

Deere said that the Consumer Advocate thinks the HCM method is reasonable due to the fact that it spreads capacity costs to all hours of the year. However, Deere stated that the HCM method allocates only 60 percent of capacity costs to summer months, which is illogical since the system is not stressed outside of these months. Deere maintained that a proper cost allocation method must place stronger emphasis on the period of peak demand when the system is stressed.

Deere noted that Consumer Advocate determined that the HCM method is reasonable by comparing its results with other cost allocation methods. Deere said it is significant that none of the methods used in the comparison are representative of the universe of accepted cost allocation methods and that Consumer Advocate simply ignored any peak demand method for cost allocation in its analysis and focused on a few of the energy weighting methodologies described in the NARUC Electric Utility Cost Allocation manual. Deere said that one of the methods used in Consumer Advocate's comparison was the average and peak demand method, which was rejected by the Board in 2011. Deere claimed that all the methods used in

this comparison are extreme cost allocation methods, and the comparison merely succeeds in demonstrating that the HCM method is unreasonable since it produces similar results as the other unreasonable methods.

Deere pointed out that Consumer Advocate criticized the A&E method on two accounts. First, Deere said Consumer Advocate claims that the use of class non-coincident peak (NCP) demands is unreasonable since it has nothing to do with generation construction. However, Deere said the NCP is used to determine excess demand, which measures the need for load following capacity on the system and is both a legitimate and appropriate measure of cost allocation. Second, Deere said Consumer Advocate states that the A&E method does not materially recognize energy consumption. Deere argued that the A&E method does materially recognize energy consumption by including average demand in the formula; average demand is annual energy consumption divided by the number of hours in the year.

As stated in IICAP's initial brief, Deere pointed out that Board rules prefer the use of embedded costs in a class cost of service study. MidAmerican's response to the Board's November 7, 2013, order for additional information indicated that hourly production costs are not available, meaning that MidAmerican had to use estimated costs in order to calculate generation cost allocation factors using the HCM method with production costs.

c. Board Discussion

Because generation costs account for two-thirds of MidAmerican's revenue requirement, allocation of those costs is the most contentious COS issue. In

determining the appropriate generation allocation method to use in this proceeding, the Board must remain mindful that allocation methodology is a tool for the Board to use as it fulfills its primary objective in a rate proceeding—to set just and reasonable rates.

Rule 199 IAC 20.10(2)"c" provides that:

> Generating capacity estimates or allocations among and within classes shall recognize that utility systems are designed to serve both peak and off-peak demand, and shall attribute costs based upon both peak period demand and the contribution of off-peak period demand in determining generation mix. Generating capacity estimates and allocations among and within classes shall be based on load data for each class as described in 199—subrule 35.9(2).

The rule does not provide any guidance as to how much importance is placed on peak demand and how much on off-peak demand. The industrial intervenors argue that peak demand drives investment in generation assets and causes MidAmerican to incur generation costs. In addition to the A&E method, IICAP also advocates for the coincident peak (CP) demand method, where generation costs are allocated on a pure demand basis according to the CP of each class. MidAmerican and Consumer Advocate contend that customers use generation assets during all hours of the year and that the manner in which those assets are used throughout the year should decide who pays for them, which is reflected in the HCM method contained in the proposed Settlement.

The Board has used the A&E method in the past and found that it is consistent with the guidance in the rule. However, this does not mean that other methods are

not consistent with the rule. The industrial intervenors claim that the HCM method allocates costs on an energy basis and, therefore, does not comply with the standard set in 20.10(2)"c." While the HCM method assigns a capacity price to each MWh of energy, that price is based on the load during that particular hour, meaning that the HCM method uses demand at all times during peak and off-peak hours to allocate generation costs. The HCM method adopted in the proposed Settlement is significantly different from the average and peak demand (APD) method rejected by the Board in IPL's 2010 rate case. The APD allocates costs in a manner similar to the A&E method but with more emphasis on average demand. The HCM method is consistent with 199 IAC 20.10(2)"c."

Although the A&E method has been used consistently for many years, the Board has long recognized that no single costing methodology is the best or provides all the answers. In a 1981 order adopting rules requiring the filing of certain cost of service information, the Board said:

> It should be noted at the outset that, if one element has become apparent in the course of this proceeding, it is that no single cost methodology, or even a single type of cost methodology, can provide all the answers to the problems facing both utilities and regulators in the area of electric rate design. As a result, the rules we adopt today are designed to allow a great deal of flexibility in methodology provided that certain general guidelines are met. We believe that this approach will encourage productive experimentation with rate design methodology, and eventually will lead to new rate designs which provide appropriate incentives to both the electric consumer and the utility to make efficient use of the resources used in producing electricity. In Re: Rules Requiring the Filing of Certain "Cost of Service" Information with the Iowa State

> Commerce Commission, "Order Adopting Rules and Statement of Reasons for Adoption of Rules Pursuant to Section 17.A.4(1)b," Docket No. RMU-80-1, p. 3 (7/6/1981).

Also, the Board has kept an open mind about examining new COS methodologies. While the Board rejected an alternative to the A&E method in Docket No. RPU-02-3, the Board noted that "[c]omments on IPL's alternative method or other methods are invited in IPL's next rate proceeding."

The intervenors opposing the HCM method argue that the A&E method formula for allocating fixed costs includes a term for average demand and a term for excess demand (demand above the class average), thereby incorporating both energy and peak demand into the formula. (Tr. 716-717, 1583) However, the results of the A&E method in this case produce results nearly identical to those obtained by using a pure coincident demand allocator. The HCM method produces results that balance the energy and demand components of generation cost allocation.

As noted by MidAmerican, high load factor customers benefit from the HCM method, although not as much as they would benefit from the A&E method. (Tr. 1110) With the HCM method, low load factor customers like residential customers pay a higher percentage of costs than their share of annual energy use while high load factor customers, like those in the very large general service class, pay a lower percentage of costs than their share of annual energy use. In other words, under the HCM method residential customers pay more than industrial customers for the same MWh of energy.

The proposed Settlement modifies the HCM method developed by MidAmerican in response to intervenors' comments so that costs are allocated separately for energy and demand, calculating hourly costs for capacity and energy for the entirety of the test year. These costs are a function of the total system load, which results in higher costs during hours of peak demand. Deere and IICAP point out that for a particular hour, if only the residential load increases, all customer classes experience a higher energy and capacity cost for that hour. While Deere and IICAP maintain that this is not fair, it does closely resemble the way in which competitive markets work—during hours of high demand, all customer classes must pay higher prices, not just particular customer classes.

Subrule 199 IAC 20.10(2)"a" provides that "[a]ll usage of customer, demand, and energy components of service shall be considered new usage." The Board said the rationale for this rule is as follows:

> This provision is designed to insure that no customer receives any "entitlement" to currently existing facilities, and that all customers pay their appropriate share of the utility's cost. It also recognizes that all customer classes contribute to the system peak in proportion to their load at the time of system peak regardless of load factor or load growth. This requirement is based upon the proposition that the cost of providing service to a customer at any given time is the same regardless of that customer's use at other times. When any assumption other than this is made, costs caused by customers using electric service at identical times are misallocated, and subsidies from one customer or customer class to another result. In Re: Rules Requiring the Filing of Certain "Cost of Service" Information with the Iowa State Commerce Commission, "Order Adopting Rules and Statement of Reasons for Adoption of Rules Pursuant to

> Section 17.A.4(1)b," Docket No. RMU-08-1, p. 27 (7/6/1981).

The HCM method is consistent with the rationale of the subrule.

Another criticism the industrial intervenors had of the HCM method is that energy costs are allocated based on MISO LMPs, rather than embedded costs. Pursuant to 199 IAC 20.10(2), embedded costs are preferred but are not required for determining revenue requirements among customer classes. Both the A&E and HCM methods derive cost allocation factors based on customer load data and apply those factors to the embedded costs. To determine the revenue requirement for a customer class, the HCM method uses LMPs, in addition to load data, to develop cost allocation factors. The use of marginal costs (LMPs) for the development of allocation factors is also not prohibited by the subrule.

In response to a Board order requiring additional information issued on November 7, 2013, MidAmerican stated that its hourly production costs are not known, which is one reason why MidAmerican elected to use MISO LMPs rather than actual production costs. MidAmerican did, however, provide estimates of hourly production costs using simplified assumptions. The results did not change the allocation factors significantly (i.e., the biggest class change was 2.7 percent) for the test year.

As noted by the industrial intervenors, the A&E method has been used by the Board in rate cases for over thirty years. However, wind power has not been a significant source of generation in any of the previous rate cases before the Board.

In the 2010 IPL rate case, wind generation represented only a relatively small portion of IPL's generation portfolio.

Traditionally, a utility built new generation to ensure that adequate resources were available to meet demand at all times. Historically, the period of peak demand drove many of the decisions regarding whether to build more generation. The traditional decision matrix does not work with wind generation because wind is not built to meet peak demand. In fact, in MidAmerican's Wind VIII case (Docket No. RPU-2013-0003), MidAmerican clearly showed that generation capacity was not immediately needed. Justification for building Wind VIII included the ability to provide low cost energy for retail customers and protection against potential future environmental regulations.

The A&E method assumes that all generation is built to meet peak demand and also to provide reliable energy throughout the year, which is why the allocators are calculated with average demand as well as excess demand. Because wind is not built to meet peak demand, it is more appropriate to allocate wind costs in a manner different from the A&E method's allocation. Currently, on average MISO gives wind power credit for capacity equal to 14 percent of the nameplate capacity of the wind farm, meaning that 86 percent of the nameplate capacity associated with wind cannot be used to fulfill resource adequacy requirements in MISO. Given that wind is built primarily for environmental planning and low cost energy, it is appropriate to allocate wind costs in a way where most of the costs are related to energy use.

MidAmerican is number one in the nation among rate-regulated utilities in ownership of wind-powered electric generation. The Board is aware of no other state regulatory agency faced with the task of adopting a generation cost allocation method for a utility that generates approximately 25 percent of its energy from wind. MidAmerican's generation portfolio is vastly different from where it was at the time of MidAmerican's last rate case and from the portfolio of Iowa's other rate-regulated electric utility. The HCM method is a reasonable COS method for this proceeding.

Wind generation has high fixed costs, with low variable costs, and provides minimal contribution to meeting peak demand. A basic premise of the A&E method is that fixed costs are incurred primarily to meet peak demand. However, with wind generation, this is not the case. Under the A&E method, residential customers pay a higher proportion of fixed costs and a lower proportion of variable costs, resulting in residential customers paying for most of the wind costs while industrial customers receive many of the benefits. Because of the high amount of wind in MidAmerican's resource mix, using the HCM method prevents a disproportionate amount of wind costs being allocated to residential customers.

The results of the various models confirm that the A&E method does not produce reasonable results given MidAmerican's current generation mix. The HCM method produces reasonable results. It is unreasonable on its face to expect base rates for industrial customers to decrease after 16 years of stable prices. That is the result from the traditional A&E method.

However, the Board's adoption of the HCM method in this proceeding does not mean that its use will be appropriate in MidAmerican's next rate proceeding or for any other Iowa utility. Because the method is new, the Board will require MidAmerican to file a COS study every three years using multiple models, whether or not it files a rate proceeding. These filings will allow the Board and others to monitor the method's reasonableness going forward.

3. Transmission Costs

MidAmerican said it allocated transmission costs based on monthly customer class peak loads, known as the 12 CP method. MidAmerican argued that use of the 12 CP method is reasonable because it tracks the way in which MidAmerican pays for transmission service in MISO.

MidAmerican argued that the 12 CP method for transmission cost allocation is more stable than the A&E method, which relies on only one peak value. MidAmerican pointed out that the 12 CP method closely resembles the manner in which MidAmerican is billed for use of transmission in MISO.

Consumer Advocate supported use of the 12 CP method for allocating transmission costs, arguing that it is consistent with the fact that demands across the entire year, not just in the summer, affect MidAmerican's transmission costs. Also, Consumer Advocate noted that the 12 CP method reflects the way MidAmerican is billed for transmission costs by MISO, which is based on MidAmerican's load share at the time of the MISO system coincident peak in each of the 12 months of the year. Consumer Advocate said that the industrial intervenors prefer to ignore their off-peak,

year-round demands and, instead, recommend the use of either a coincident peak demand allocator using only summer demands or a version of the A&E method that is based on summer peak demand.

Deere argued that the 12 CP method proposed by MidAmerican for transmission cost allocation did not accurately reflect cost causation for MidAmerican because the 12 CP method fails to recognize the important role that summer peak demands play in determining MidAmerican's capacity needs. Deere noted that the 12 CP method was a dramatic departure from the Board's prior transmission cost allocation method.

The 12 CP method in the proposed Settlement is based on each customer class's average monthly coincident peak demand, reflecting that transmission investments are made to ensure reliable service all year long. Also, transmission settlements in MISO are based on monthly peak demand. The Board agrees that it is not just peak demand but monthly peak demand that is important, and the Board will allocate transmission costs by the 12 CP method, which is consistent with the HCM's method of allocating generation costs based on load throughout the year.

B. Phase In of Revenue Increase

Article IX of the proposed Settlement provides for MidAmerican to implement its rate increase over a three-year period, with the first year's increase being equal to the temporary rates set by the Board, a second year increase to begin on January 1, 2015, in the amount of about $45.15 million, and a third year increase to begin on

January 1, 2016, of about $45.15 million. The phase-in would mitigate customer impacts by spreading the increase over a three-year period.

While there were disagreements about adjustment clauses and other aspects of the Settlement, ICI was the only party to oppose the three-year phase-in. ICI said the MidAmerican rate increase proposal was based on current economic conditions, which remain sluggish, and that if conditions improve MidAmerican will have more opportunities for sales to retail customers and off-system sales in the wholesale market. ICI argued that MidAmerican could experience a windfall if the three-year phase-in were locked in and that if the phase-in is denied, MidAmerican could file a rate case in three years. In its reply brief, ICI clarified that the three-year phase-in for base rates benefits customers, but that those benefits are lost with the implementation of the adjustment clauses and projected future increases.

MidAmerican noted that it would not experience a windfall with the three-year phase-in because those rates will be below the ROE levels supported by the industrial intervenor groups; if MidAmerican's earnings exceed the authorized level, customers receive 80 percent of the benefit without absorbing any downside risk. MidAmerican also noted that any potential increased earnings would come from wholesale sales, which would not impact retail rates. Finally, MidAmerican said that the Board always has the right to review the reasonableness of MidAmerican's rates.

Viewed in isolation, the three-year phase-in of MidAmerican's base rate increase is reasonable and benefits customers. As noted in the Settlement, Consumer Advocate and MidAmerican agreed that an annual revenue increase for

MidAmerican was justified in this proceeding. With the phase-in, customers will not immediately experience the full impact of the increase.

However, with other rate changes contained in the Settlement, such as rate equalization, it might be necessary to address certain customer impacts in such a way that would impact the three-year phase-in for some customers. Customer impacts will be addressed later. Absent unreasonable customer impacts, the three-year phase-in is reasonable and reduces the immediate rate impact to MidAmerican's customers.

C. Rate Equalization

The proposed Settlement provides for a ten-year rate equalization period among MidAmerican's three rate zones, as outlined in MidAmerican witness Rea's testimony. The parties generally support a ten-year rate equalization period, although NIE would support a longer period, if necessary, to minimize certain customer impacts.

The ten-year equalization period provided in the Settlement balances the interests of the customers served by MidAmerican who need time to adjust to the new rates determined in this proceeding, as well as to any rate design changes. The ten-year period mitigates any rate shock. Absent any unreasonable customer impacts, which will be addressed later, a ten-year equalization period is reasonable and will be approved.

D. Revenue True-Up

Article XIII of the Settlement Agreement addresses revenue true-up:

> For settlement purposes, the Parties agree that MidAmerican may adjust its rates at the end of the phase-in period (on or about January 1, 2017) to account for revenue lost from customers switching to more favorable rates only if MidAmerican's actual earned return on equity for the prior calendar year and MidAmerican's forecasted return for the year the rates changed as a result of the true-up would go into effect are both lower than a return on equity of 11%.

MidAmerican said the revenue true-up mechanism addresses lost revenues associated with rate migration but is only triggered if MidAmerican's forecasted return on equity for 2017 and its actual return on equity for 2016 are both lower than 11 percent. MidAmerican argued that the proposed Settlement's true-up adjustment is a reasonable approach to resolving any revenue deficiency caused by rate migration because customers are moving from three sets of rates, all with different rate structures and rate design, to a single set of rates with a unified rate design.

Consumer Advocate said that the revenue true-up provision was included in the proposed Settlement as part of a compromise to address the unique situation of customer classes moving to a common rate design after many years of disparate rates and rate structures. Consumer Advocate noted that it was impossible to predict the number of customers that might switch to a different rate and that the potential overall revenue impact made the normal ratemaking approach of making a pro forma adjustment to test year results too speculative. Consumer Advocate said two triggers on the mechanism were put in place to protect customers, but also stated that without

some sort of true-up provision it would not be in MidAmerican's financial interest to work with customers to switch them to the most economical rate.

Deere opposed the true-up mechanism, stating that it represents classic piecemeal ratemaking and that MidAmerican has other remedies available to address lost revenues, such as filing a rate case. Deere said that the proposed true-up ignores load growth or increased load from existing customers that do not switch rates. Deere noted that rate migration is a risk faced by all utilities and if the adjustment is approved the reduced risk should be reflected in a lower ROE for MidAmerican.

NIE opposed the adjustment because it would take place at a time separate and apart from the current rate case and MidAmerican provided no estimate of amounts that may need to be reconciled, which IPL was able to provide when a true-up mechanism was approved in Docket No. RPU-95-3. NIE argued that if a true-up was approved, the only approach that would produce a just result would be through a full review of matching revenues and costs for a relevant test year.

The revenue true-up provision of the proposed Settlement is unreasonable and will be rejected. The true-up does not take into account any load growth that MidAmerican might experience, resulting in a provision that is unbalanced because it considers only potential lost revenue and not any potential revenue growth. Such an unbalanced true-up provision is not fair to MidAmerican's ratepayers. Also, MidAmerican designed the rate consolidation and equalization package, which includes implementing rate design changes in a single step, class revenue

realignment through a new COS study, equalizing rates in its three rate zones over a ten-year period, and phasing-in the revenue increase in three steps; MidAmerican could have proposed a different approach and if rate migration poses a significant problem, MidAmerican can file a rate case where both revenues and costs are reviewed.

Finally, the Board does not believe it is necessary to provide a financial incentive to MidAmerican to assist its customers switching to the most favorable rate. The Board expects MidAmerican to play a proactive role and make every effort to explain significant bill impacts resulting from this proceeding to customers who are impacted and provide them information about programs that are available to mitigate rate increases. MidAmerican in this proceeding has justifiably pointed to results of various customer satisfaction surveys as an indicator of how it does business. This is an opportunity for MidAmerican to provide exemplary customer service at a time when certain customers will need it the most. At the time its files its compliance tariffs, MidAmerican will be required to file a copy of its communication plan, which is to include MidAmerican's planned efforts to explain significant bill impacts to affected customers, how MidAmerican will communicate with customers and work with them to find the most advantageous rate, and how MidAmerican will provide customers with information on such things as energy efficiency options that might reduce their electric bills.

E. Street Lighting

ELPC/IPC, MidAmerican, and Consumer Advocate agreed to Article XVI of the proposed Settlement, which addresses LED street lighting. No party opposed this provision of the Settlement.

The Settlement provides that MidAmerican street lighting customers will receive educational information about LED street lights and the options that street lighting customers have for installation of LED street lights and replacement of existing or burned out lights with LED street lights. The LED street lighting provision of the Settlement is reasonable and will provide customers with additional information about the potential savings from LED street lights and the process to replace existing lights with LED lights.

VIII. MITIGATION OF CUSTOMER IMPACTS

The proposed Settlement contains several measures to mitigate the base rate increase, including a three-year phase-in and depreciation deferral. The revenue sharing mechanism should help mitigate future increases. Even with these and other measures, however, the combination of the rate increase, rate design and cost-of-service changes, rate consolidation, and rate equalization mean that some customers will experience relatively large rate increases that need to be further mitigated. Just and reasonable rates means more than mathematical equality and the Board has a duty to consider all relevant factors, balancing cost of service factors with the impact of significant rate increases. While there is no hard and fast definition as to what

constitutes rate shock, there is no question that a few of MidAmerican's customers might experience large increases both in absolute dollars and as a percentage of their current bills.

The mitigation measures the Board will take do not impact MidAmerican's overall revenue requirement and any lost revenue resulting from the mitigation measures is to be spread among other members of the particular class; there is to be no cross-class subsidization. The Board will mitigate the rate increases in any one year over the ten year equalization period using two parameters, a dollar increase and a percentage increase. The initial comparison will be between temporary rates and 2014 rates to be implemented by this order, the second annual comparison will be between the 2014 rates implemented by this order and 2015 rates, and so on until the end of the equalization period. The year-to-year comparisons are to be based on constant usage for a selected year, such as the test year or 2013, and increases in consumption over the ten-year period need not be considered.

For individual residential customers, the annual electric increase is capped at 15 percent per year, if that increase also is $200 or more. A customer who receives a relatively small annual dollar increase of $100 would not be eligible for mitigation even if on a percentage basis the amount represented a 30 percent increase. Both parameters have to be satisfied for mitigation to apply.

For nonresidential customers, the mitigation plan will work the same way, but with a different dollar parameter. For nonresidential customers, the annual electric increase is capped at 15 percent per year, if that increase is also $1,500 or more.

Under both the residential and nonresidential mitigation plans, the amount of the annual increase is reduced until one of the parameters (dollar amount or percentage) is no longer satisfied and the balance of the revenue requirement is spread to the rest of the same customer class.

Application of the mitigation plan is best shown by example, so the Board offers several examples as to how the plan is to be applied by MidAmerican. These numbers are for illustrative purposes only; they represent unusual situations, so they are not indicative of typical or average increases. For residential customers, the two parameters of the mitigation plan are a maximum annual dollar increase of $200 and a maximum annual percentage increase of 15 percent. Example 1 is a residential customer with an annual electric bill of $1,000. In year one, the new rates would increase the bill for this particular hypothetical customer by $250, which would be an increase of 25 percent. Since both parameters have been met, mitigation will be required. Under this example, the maximum increase allowed to this customer during year one is $200. Although this is a 20 percent increase, the dollar limit is the defining parameter in this example.

Example 2 is a residential customer with an annual electric bill of $3,000. In year one, the new rates would increase the bill by $300, which is an increase of 10 percent. Since only one parameter has been met, this example does not require mitigation.

Example 3 is a residential customer with an annual bill of $9,000. In year one, the new rates would increase the bill by $2,000, which is an increase of 22 percent.

Since both parameters have been exceeded, mitigation will be required. Under this example, the maximum increase allowed during year one is $1,350 (which is 15 percent of $9,000). Although this is well over the $200 limit, the percentage increase is the defining parameter in this example.

For nonresidential customers, the two parameters of the mitigation plan are a maximum dollar increase of $1,500 and a maximum annual percentage increase of 15 percent. Example 4 is a nonresidential customer with an annual electric bill of $9,000. In year one, the new rates would increase the bill by $2,000, which is an increase of 22 percent. Since both parameters are exceeded, mitigation will be required. Under this example, the maximum increase allowed during year one is $1,500. Although this is a 17 percent increase, the dollar limit is the defining parameter in this example.

Example 5 is a nonresidential customer with an annual electric bill of $30,000. In year one, the new rates would increase the bill by $2,500 which is an increase of 8 percent. Since only one parameter has been met, this example does not require mitigation.

Example 6 is the final example and is a nonresidential customer with an annual bill of $20,000. In year one, the new rates would increase the bill by $4,500 which is an increase of 23 percent. Since both parameters have been exceeded, mitigation will be required. Under this example, the maximum increase allowed during year one is $3,000 (which is 15 percent of $20,000). Although this is well over the $1,500 limit, the percentage increase is the defining parameter in this example.

IX. PROPOSED SETTLEMENT

In reviewing a Settlement, the Board looks at the entire Settlement and will not approve the Settlement "unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest." 199 IAC 7.18. The Board examines the individual issues in the Settlement that are contested, but in ruling on the Settlement all of the Settlement's terms and conditions must be factored into the Board's decision. The Board recognizes that a Settlement generally represents compromise on various issues and therefore must be considered as a whole, which is why the Board's decisions of the individual issues may have been different than what is contained in the Settlement but nevertheless the Board can find that the overall Settlement meets the requirements of the rule.

Consistent with the Board's discussions on the individual issues, the Board finds that in examining the Settlement as a whole, it is reasonable in light of the whole record, consistent with law, and in the public interest, with the modifications discussed at various places in this order. The Settlement, with the modifications ordered by the Board, offers significant customer benefits that include rate phase-in, depreciation deferral, and revenue sharing. At the same time, the mitigation measures protect customers from an unreasonable rate shock. The Settlement, with modifications, will be approved.

There was some argument by various intervenors that the Board should require MidAmerican to file another rate case on or before a certain date, perhaps

four or five years from now. The Board does not want to encourage multiple rate cases and notes that the modifications to the Settlement will allow the Board and other parties to monitor changes to MidAmerican's rates and rate structure provided for in the Settlement. An early rate proceeding could also deprive MidAmerican's customers of some of the benefits from the Wind VIII settlement. Iowa Code chapter 476 provides for adequate remedies if future adjustments to MidAmerican's rates, rate structure, or equalization timeline are necessary.

X. FINDINGS OF FACT

1. It is reasonable to allow MidAmerican to recover environmental costs associated with Neal 3, Neal 4, and Ottumwa Generating Station, as provided in the Settlement.

2. It is not reasonable to include any sales growth adjustments, other than those contained in the Settlement.

3. MidAmerican's depreciation study is reasonable.

4. The depreciation reserve proposal contained in the Settlement is reasonable as clarified by this order, if the regulatory asset created by the deferral does not exceed $300 million at any one time.

5. Basing a depreciation adjustment on a theoretical reserve could violate GAAP accounting standards and the adjustment proposed in this proceeding is not supported by persuasive evidence and is unreasonable.

6. A return on equity of 9.9 percent (Consumer Advocate) or 10 percent (MidAmerican) for rate base not subject to advance ratemaking principles is reasonable.

7. The capital structures for MidAmerican contained in the Settlement are reasonable and there is no persuasive evidence in this proceeding to support a hypothetical capital structure.

8. It is reasonable for MidAmerican to utilize an energy adjustment clause and, in the context of the Settlement, exclude wholesale margins from the clause.

9. A transmission cost adjustment clause, in the context of the Settlement, is reasonable, subject to the modifications contained in this order, such as a five-year sunset as described in this order, reporting requirements, and prior Board approval before any new MISO schedules or tariffs can be recovered through the transmission cost adjustment clause.

10. In the context of the Settlement, the “separate jurisdiction” proposed by MidAmerican is reasonable, as long as the annual filing described in the order is made and that the “separate jurisdiction” not be used to develop projects outside of MidAmerican’s traditional regulated-utility footprint, nor should anything from the Iowa regulated jurisdiction cross into or out of the separate accounting jurisdiction.

11. The revenue sharing mechanism contained in the Settlement, which utilizes wholesale margins, is reasonable, as modified in this order.

12. It is reasonable in this proceeding to allocate MidAmerican’s generation costs pursuant to the hourly costing model method contained in the Settlement.

13. It is reasonable in this proceeding to allocate MidAmerican's transmission costs pursuant to the 12 CP method.

14. It is reasonable to allocate miscellaneous distribution costs and distribution wires costs as agreed by MidAmerican and Consumer Advocate in the Settlement.

15. It is reasonable to phase in MidAmerican's base rate increase over three years.

16. A ten-year rate equalization period among MidAmerican's three rate zones is reasonable.

17. The revenue true-up provision in the Settlement is unreasonable and not supported by persuasive evidence.

18. The LED street lighting provisions in the Settlement are reasonable.

19. It is reasonable to mitigate customer impacts that could result from this proceeding and the mitigation plan detailed in the order is reasonable.

20. The Settlement, with the modifications contained in this order, is reasonable in light of the whole record, consistent with law, and in the public interest.

XI. CONCLUSIONS OF LAW

The Board has jurisdiction of the parties and the subject matter in this proceeding, pursuant to Iowa Code chapter 476 (2013).

XII. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariffs filed by MidAmerican Energy Company on May 17, 2013, identified as TF-2013-0094 and TF-2013-0095, and made subject to investigation as part of this proceeding, are declared to be unjust, unreasonable, and unlawful.

2. The settlement agreement filed on November 20, 2013, by MidAmerican, the Consumer Advocate Division of the Department of Justice, and the Environmental Law and Policy Center and Iowa Environmental Council, as modified by this order, is reasonable in light of the whole record, consistent with law, in the public interest, and, therefore, is approved.

3. MidAmerican shall file tariffs in compliance with this order within 20 days from the date of this order, reflecting rates consistent with the Settlement Agreement, as modified. As part of its compliance tariff filing, MidAmerican shall file revised tariff sheets that list the time and materials rate(s) for service turn-on and turn-offs after regular working hours and for reconnection following disconnection of service. MidAmerican shall also update the proposed tariffs to the technical standards in the Board's rules, as found in Docket No. RMU-2013-0001. The compliance tariffs shall become effective upon approval by the Board. At the time compliance tariffs are filed, MidAmerican shall also file its communication plan as described in the body of this order.

4. At the same time MidAmerican files its compliance tariffs, MidAmerican shall also file an updated proof of revenue schedule. The schedule shall be based on the same methodology that was used in the pre-hearing proof of revenue schedule provided in Attachment 4, filed on July 15, 2013, for current and proposed revenues. Attachment 4 included a summary sheet which showed revenue per rate code, which MidAmerican shall also update. In addition to that information, the summary sheet shall also show the revenue associated with each individual rider for each current code, and how the total revenue to be recovered under proposed compliance rates ties to MidAmerican's revenue requirement.

5. MidAmerican shall not implement the third year of its base rate phase-in until it has notified the Board that the new Ottumwa Generating Station environmental equipment project is completed and operational; MidAmerican shall promptly notify the Board when the project is completed and operational.

6. The regulatory asset account created by the depreciation deferral contained in the Settlement shall not exceed $300 million at any one time.

7. The energy adjustment clause contained in the Settlement is approved as modified in this order with respect to annual adjustments, and the Board grants MidAmerican's request for waiver of the energy adjustment clause rules (199 IAC 20.9) necessary to exclude wholesale margins from the EAC, with those margins instead being part of the revenue sharing mechanism. The Board also grants waivers as discussed in the body of this order to allow such things as production tax credits to flow through the energy adjustment clause and to allow annual adjustment

of the clause. MidAmerican shall make monthly informational energy adjustment clause filings, similar to those made by IPL, and provide an annual update when it files for the annual adjustment of the clause.

8. The transmission adjustment clause contained in the Settlement is approved, with the following modifications: a) new MISO schedules or tariffs cannot be recovered through the clause without prior Board approval; b) the clause will sunset five years from the date compliance tariffs are approved, although MidAmerican may ask for the clause to be extended as described in the body of this order; c) MidAmerican shall file monthly transmission clause reports (similar to those currently filed by IPL) with the TCA being adjusted on an annual basis; MidAmerican shall file any proposed annual adjustment by February 15 for an April 1 effective date, and 4) MidAmerican shall file semi-annual reports in June and December of each year, beginning in June 2014, detailing MidAmerican's efforts to influence MISO transmission costs and policy.

9. MidAmerican shall make an annual filing, beginning in April 2015, detailing what has and has not been included in the "separate jurisdiction" for each month in the preceding year.

10. The "separate jurisdiction" set forth by MidAmerican cannot be used to develop projects outside of MidAmerican's traditional regulated-utility footprint and nothing from the Iowa regulated jurisdiction shall cross into or out of the separate accounting jurisdiction, as clarified in the order.

11. Every three years beginning April 1, 2017, either separately or as part of a rate proceeding, MidAmerican shall file a class cost-of-service study using multiple models, such as those that various parties advocated for in this proceeding.

12. For three years, beginning in January 2015, MidAmerican shall file an annual report with information regarding customer complaints to MidAmerican involving the elimination of its rate codes, including how those complaints were resolved and whether any credits or debits were applied to the customer's account.

13. As part of its compliance tariff filing, MidAmerican shall file a rate mitigation plan consistent with the guidelines and parameters contained in this order.

14. The Board notifies MidAmerican pursuant to Iowa Code § 476.6(13) and 199 IAC 20.13 that it will commence a proceeding in 2015 to evaluate the reasonableness and prudence of MidAmerican's procurement and contracting practices related to the acquisition of fuel for use in generating electricity. MidAmerican is to file information and direct testimony pursuant to the schedule outlined in 199 IAC 20.13.

15. MidAmerican shall file annual revenue sharing calculations on or before February 15 of each year, as provided for in the Settlement Agreement.

16. Motions and objections not previously granted or sustained are denied or overruled. Any argument in the briefs not specifically addressed in this order is rejected either as not supported by the evidence or as not being of sufficient persuasiveness to warrant comments.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Nick Wagner

ATTEST:

/s/ Judi K. Cooper */s/ Sheila K. Tipton*
Executive Secretary, Deputy

Dated at Des Moines, Iowa, this 17th day of March 2014.